

ANNUAL FINANCIAL REPORT

of the

HOBBY AREA DISTRICT

For the Year Ended
December 31, 2018

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HOBBY AREA DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Hobby Area District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hobby Area District the "District" as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of December 31, 2018, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information (TSI) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The TSI has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

 BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
June 19, 2019

***MANAGEMENT DISCUSSION
AND ANALYSIS***

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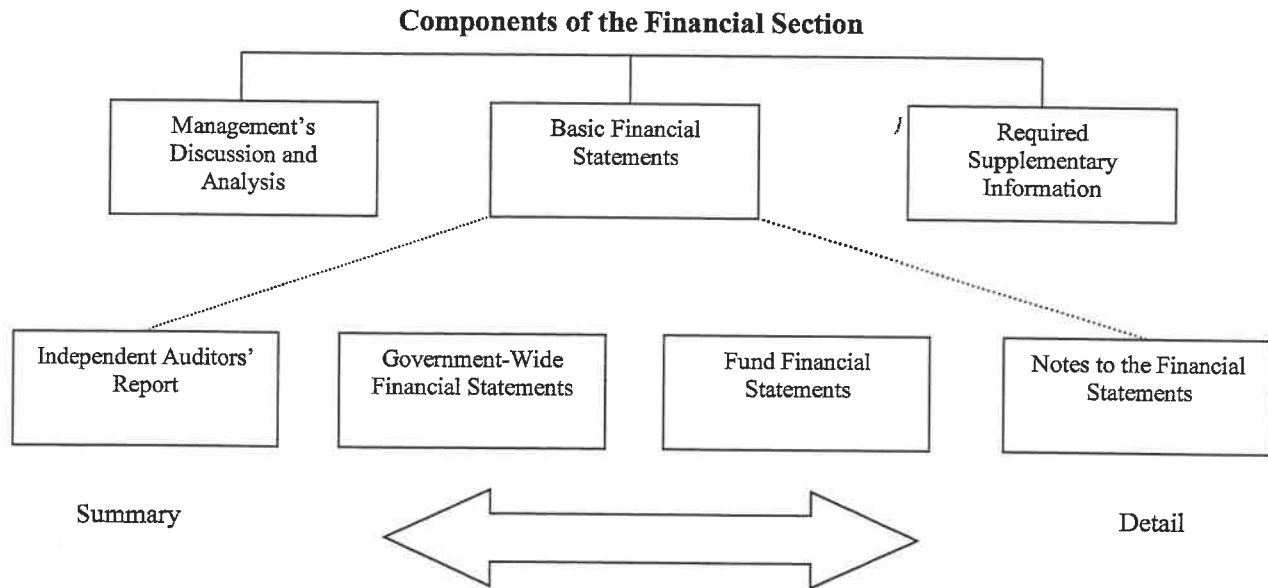
HOBBY AREA DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2018

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the Hobby Area District (the "District") for the year ending December 31, 2018. The analysis is based on currently known facts, decisions, or economic conditions. It presents a short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The District's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statement themselves.

Government-Wide Statements

The government-wide statements report information for the District as a whole. These statements include transactions and balances relating to all assets, including capital assets. These statements are designed to provide information about the cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred outflows/inflows of resources 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 is improving or deteriorating. Other nonfinancial factors, such as the District's property assessment base and the condition of the District's infrastructure, need to be considered to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

HOBBY AREA DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2018

occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities present the District's financials using one class of activity:

1. *Governmental Activities* – All the District's activities are reported within this class.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the District. They are usually segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The District's operations are reported using governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains two governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and Hobby area improvement fund, which are considered to be major funds for reporting purposes.

The District adopts an annual budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund. RSI can be found after the notes to the basic financial statements.

HOBBY AREA DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities and deferred inflows of resources by \$1,742,361 as of December 31, 2018.

A portion of the District's net position, \$681,542 or 39%, reflects its investments in capital assets (e.g., land, building and improvements, equipment, and construction in progress) less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

		Governmental Activities	
		2018	2017
Current and other assets	\$	3,085,984	\$ 3,338,150
Capital assets, net		681,542	211,757
Total Assets		3,767,526	3,549,907
Other liabilities		122,091	111,284
Total Liabilities		122,091	111,284
Deferred inflows - property assessment		1,907,272	1,830,200
Total Deferred Inflows of Resources		1,907,272	1,830,200
Net Position:			
Net investment in capital assets		681,542	211,757
Unrestricted		1,060,819	1,396,666
Total Net Position	\$	1,742,361	\$ 1,608,423

During the current fiscal year, the District's net position increased by \$133,938 mainly due to the property assessment increase and the reimbursements received from Scenic Houston. The revenue recognition for the 2018 assessment has been fully deferred to the 2019 fiscal year.

HOBBY AREA DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2018

Statement of Activities:

The following table provides a summary of the District's changes in net position:

		Governmental Activities	
		2018	2017
Revenues			
Property assessment	\$	1,821,652	\$ 1,756,107
Investment earnings		28,170	12,348
Other revenues		390,678	391,540
Total Revenues		<u>2,240,500</u>	<u>2,159,995</u>
Expenses			
Professional services		50,526	27,562
Contracted services		623,948	499,468
Public safety and security		367,727	397,613
Community development		70,102	64,861
Environmental and urban design		458,528	386,566
Business and economic development		305,339	86,029
Communication, public affairs, and marketing		103,161	38,625
Other		127,231	112,758
Total Expenses		<u>2,106,562</u>	<u>1,613,482</u>
Change in Net Position		133,938	546,513
Beginning net position		<u>1,608,423</u>	<u>1,061,910</u>
Ending Net Position	\$	<u>1,742,361</u>	<u>\$ 1,608,423</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The District's general fund fund balance as of December 31, 2018 was \$996,829. The fund balance decreased by \$327,271 from prior year. This decrease was mainly due to more contracted services and personnel related costs during the fiscal year.

The Hobby area improvement fund has a fund balance as of December 31, 2018 of \$60,790. The fund balance decreased by \$8,794 from prior year. This increase was mainly due to less sponsorship revenues received from the Hobby fest.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$275,121 less than budgeted primarily as the result of the other revenue being less than budgeted. Actual expenditures were \$943,151 less than budgeted primarily due to less expenditures in environmental and urban design; public safety and security; communication, public affairs, and marketing; and

HOBBY AREA DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2018

business and economic development than anticipated and partially offset by the excess expenditures in contracted services.

CAPITAL ASSETS

At the end of the year, the District's governmental activities had invested \$681,542 in a variety of capital assets and infrastructure, net of depreciation.

Major capital asset events during the current year include the following:

- Bus shelters project for \$487,539.

More detailed information on the District's capital assets is presented in note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budgeted expenditures for 2019 are \$2,988,998. The District's property assessment rate will be \$0.15 per \$100 of the property assessed value for the 2019 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional information should be addressed to Hobby Area District, 8121 Broadway, Suite 199, Houston, Texas 77061.

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BASIC FINANCIAL STATEMENTS

HOBBY AREA DISTRICT
STATEMENT OF NET POSITION AND
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2018

	General	Hobby Area Improvement	Total Governmental Funds Balance Sheet	Adjustments
<u>Assets</u>				
Cash and cash equivalents	\$ 616,049	\$ 68,820	\$ 684,869	\$ -
Investments	759,808	-	759,808	-
Property assessment receivable	1,641,307	-	1,641,307	-
Construction in progress	4,198	-	4,198	-
Net depreciable capital assets	-	-	-	681,542
Total Assets	3,021,362	68,820	3,090,182	681,542
<u>Liabilities</u>				
Accounts payable	85,581	3,832	89,413	-
Due other funds	-	4,198	4,198	-
Long-term liabilities				
Due within one year	-	-	-	25,632
Due in more than one year	-	-	-	2,848
Total Liabilities	85,581	8,030	93,611	28,480
<u>Deferred Inflows of Resources</u>				
Unavailable revenue- property assessment	1,938,952	-	1,938,952	(31,680)
Total Deferred Inflows of Resources	1,938,952	-	1,938,952	(31,680)
<u>Fund Balance/Net Position</u>				
Fund balance:				
Unassigned	996,829	60,790	1,057,619	(1,057,619)
Total Fund Balances	996,829	60,790	1,057,619	(1,057,619)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,021,362	\$ 68,820	\$ 3,090,182	
Net Position:				
Net investment in capital assets				681,542
Unrestricted				1,060,819
Total Net Position				\$ 1,742,361

See Notes to Financial Statements.

**Statement of
Net Position**

\$	684,869
	759,808
	1,641,307
	4,198
	<u>681,542</u>
	<u>3,771,724</u>

89,413
4,198

25,632
<u>2,848</u>

<u>122,091</u>

<u>1,907,272</u>

<u>1,907,272</u>

<u>-</u>

<u>-</u>

681,542

<u>1,060,819</u>

<u>\$</u>	<u>1,742,361</u>
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HOBBY AREA DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION

December 31, 2018

Total fund balances for governmental funds	\$ 1,057,619
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Deferred assessment revenue became part of recognized revenue in the governmental activities of the District.	31,680
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	681,542
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences	<u>(28,480)</u>
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Net Position of Governmental Activities	<u><u>\$ 1,742,361</u></u>
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HOBBY AREA DISTRICT
STATEMENT OF ACTIVITIES AND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	General	Hobby Area Improvement	Total Governmental Funds	Adjustments
<u>Revenues</u>				
Property assessment	\$ 1,793,890	\$ -	\$ 1,793,890	\$ 7,163
Penalty and interest revenue	20,599	-	20,599	-
Investment earnings	28,170	-	28,170	-
Other income	362,053	28,625	390,678	-
Total Revenues	2,204,712	28,625	2,233,337	7,163
<u>Expenditures/Expenses</u>				
Service operations:				
Professional fees	50,526	-	50,526	-
Contracted services	617,003	-	617,003	6,945
Public safety and security	367,727	-	367,727	-
Community development	-	70,102	70,102	-
Environmental and urban design	458,528	-	458,528	-
Business and economic development	288,893	16,446	305,339	-
Communication, public affairs, and marketing	103,161	-	103,161	-
Other	82,671	871	83,542	-
Depreciation	-	-	-	17,754
Capital outlay	513,474	-	513,474	(487,539)
Total Expenditures/Expenses	2,481,983	87,419	2,569,402	(462,840)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures/Expenses	(277,271)	(58,794)	(336,065)	470,003
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	(50,000)	50,000	-	-
Total Other Financing Sources (Uses)	(50,000)	50,000	-	-
Change in Fund Balances/Net Position	(327,271)	(8,794)	(336,065)	470,003
Beginning fund balances/net position	1,324,100	69,584	1,393,684	214,739
Ending Fund Balances/Net Position	\$ 996,829	\$ 60,790	\$ 1,057,619	\$ 684,742

See Notes to Financial Statements.

**Statement of
Activities**

\$	1,801,053
	20,599
	28,170
	<u>390,678</u>
	<u>2,240,500</u>

50,526
623,948
367,727
70,102
458,528
305,339

103,161
83,542
17,754
<u>25,935</u>

<u>2,106,562</u>

<u>133,938</u>

<u>-</u>

<u>-</u>

133,938

<u>1,608,423</u>

\$	<u><u>1,742,361</u></u>
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HOBBY AREA DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

Net change in fund balances - total governmental funds	\$ (336,065)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new constructions.	487,539
Governmental funds do not account for depreciation. However, in the Statement of Net Position capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(17,754)
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	(6,945)
Governmental funds report assessment revenue when it is collected. However, in the Statement of Net Position, revenue is recorded in the accounting period for which the assessments are levied.	<u>7,163</u>
Change in Net Position of Governmental Activities	<u><u>\$ 133,938</u></u>

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HOBBY AREA DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

NOTE 1 – CREATION OF DISTRICT

Hobby Area District the “District” was created effective June 15, 2007 by the Texas Legislature under provisions of House Bill No. 4110, of the 80th Legislature, Regular Session, 2007, codified as Chapter 3859, Texas Special District Local Laws Code (the “Act”). In addition, the District is governed by Chapter 375, Local Government Code, and Chapter 49, Water Code. Pursuant to the provisions of the Act creating the District, the District is empowered to promote, develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, the arts, entertainment, economic development, safety, and the public welfare in the area of the District. The Board of Directors held its organizing meeting on June 22, 2007. The District changed its name from Harris County Improvement District No. 9 to Hobby Area District in April of 2019.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and accounting policies of the District are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District’s significant accounting policies are described below.

A. Reporting Entity

The District has adopted GASB Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*. In accordance with these statements, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The District is governed by a board of directors consisting of 11 directors who serve staggered terms of four years with five or six directors’ terms expiring June 1 of each odd-numbered year. Naming of the initial Board of Directors (the “Board”) was part of the legislative process. While it is typical that most Board members appointed to the initial Board satisfy the basic requirements for service described in Chapter 375 of the *Texas Local Government Code*, it is not required that they do so. Board resignations, replacements, and appointments will be made in accordance with Chapter 375 of the *Texas Local Government Code*. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is considered to be the primary government, as well as the reporting entity.

The District is located within the city of Houston (the City”) and the City has limited oversight, but is not considered a component unit of the City.

Blended Component Unit

Hobby Area Improvement Corporation

The Hobby Area Improvement Corporation (the “Corporation”) has been included in the reporting entity as a blended component unit. The Corporation was organized and operated exclusively for one or more charitable purpose. The Corporation was further organized for the purpose of aiding, assisting, and acting on behalf of the District in the performance of its governmental functions to construct, acquire, operate, maintain, and finance parks, green space, landscaping, beautification,

HOBBY AREA DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

and recreational improvement to benefit the District; to advance the civic, social, commercial, industrial, and economic interest of the District; and to raise, administer, and distribute the funds necessary for the active promotion of these interests; and to aid, assist, and act on behalf of the District in the administration and operation of a tax increment zone created by, for, or in the area of, the District.

The Corporation is included in the District's reporting entity because of the significance of its operational or financial relationships with the District. The District appoints a majority of the Corporation's Board and is either able to impose its will on it or a financial benefit/burden exists.

Financial statements of the component unit can be obtained from administrative office of the District.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component unit. Governmental activities are normally supported by assessment and intergovernmental revenues.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The District reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly included in other funds. The general fund is always considered a major fund for reporting purposes.

The *Hobby area improvement fund* is used to account for financial transactions for specific District events, like Hobby fest and State of the District. The Hobby area improvement fund is considered a major fund for reporting purpose.

Certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured

HOBBY AREA DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property assessment is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property assessment and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). All other revenue items are considered to be measurable and available only when cash is received by the District.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

HOBBY AREA DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government or U.S. Government agencies
- Fully collateralized certificates of deposit
- Money market mutual funds that meet certain criteria
- Bankers' acceptances
- Statewide investment pools

3. Capital Assets

Capital assets, which include property, plant, equipment, and construction in progress, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Property improvement	5-40 years
Machinery and equipment	2-10 years

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property assessment. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. At the government-wide level, the District reports a deferred inflow of resources for that portion of property assessment that was collected for use in the subsequent period.

HOBBY AREA DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2018

5. Compensated Employee Absences

The District provides its employees with personal time off (PTO) for vacation, sick leave, personal times, and holidays. PTO may be accumulated from year to year up to 480 hours. PTO hours that would surpass the 480-hour limit will be paid on the next pay period following the limit being exceeded. Upon termination, any unused PTO hours will be paid. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of accumulated PTO that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

6. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

7. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

HOBBY AREA DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – CASH AND TEMPORARY INVESTMENTS

As of December 31, 2018, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Year)
Certificate of deposit	\$ 247,356	0.53
TexSTAR	512,452	0.00
Total Fair Value	\$ 759,808	
Portfolio weighted average maturity		0.17

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Custodial credit risk—deposits. In the case of deposits, this is the risk that the District's deposits may not be returned in the event of a bank failure. The District's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of December 31, 2018, fair market values of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk—investments. For an investment, this is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The District's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

Credit risk—The District's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the top nationally recognized rating agencies. As of December 31, 2018, the District's investment in TexSTAR was rated 'AAAm' by Standard & Poor's.

HOBBY AREA DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2018

TexSTAR

The Texas Short-Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR is measured at amortized cost. TexSTAR's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national or state emergency that affects TexSTAR's liquidity.

NOTE 4 – ANNUAL ASSESSMENT

In accordance with the Act creating the District, the District may levy an ad valorem tax, an assessment, an impact fee, or another fee in accordance with Chapter 49, Water Code, for a purpose specified by Chapter 375, Local Government Code, to provide improvements and services for a project or activity the District is authorized to acquire, construct, improve, or provide under this Act.

On November 14, 2013, an order (the "Order") was adopted granting a petition for a service plan (the "Service Plan") and an assessment roll for the District. The Order authorized levying an annual assessment that would assure sufficient funding for the services to be provided under the ten-year (2014-2023) term of the Service Plan. The Order authorized an assessment of \$0.15 per \$100 valuation on land and improvements of commercial property owners within the District throughout the term of the Service Plan.

For the 2018 assessment year, the District levied an ad valorem assessment of \$0.15 per \$100 of assessed valuation, resulting in an assessment of \$1,907,272. Revenue recognition for the 2018 assessment has been fully deferred to the 2019 fiscal year.

The District's calendar for collection of the assessment is as follows:

Levy Date	October 1 or as soon thereafter as practicable
Lien Date	January 1
Due Date	Not later than January 31
Delinquent Date	February 1, at which time the assessment payer is liable for penalty and interest

HOBBY AREA DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2018

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2018 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Governmental Activities				
Capital assets not being depreciated:				
Construction in progress	\$ 50,417	\$ 487,539	\$ (537,956)	\$ -
Total capital assets not being depreciated	<u>50,417</u>	<u>487,539</u>	<u>(537,956)</u>	<u>-</u>
Other capital assets:				
Building and improvements	177,538	537,956	-	715,494
Total other capital assets	<u>177,538</u>	<u>537,956</u>	<u>-</u>	<u>715,494</u>
Less accumulated depreciation for				
Building and improvements	(16,198)	(17,754)	-	(33,952)
Total accumulated depreciation	<u>(16,198)</u>	<u>(17,754)</u>	<u>-</u>	<u>(33,952)</u>
Other capital assets, net	161,340	520,202	-	681,542
Governmental Activities				
Capital Assets, Net	<u>\$ 211,757</u>	<u>\$ 1,007,741</u>	<u>\$ (537,956)</u>	<u>\$ 681,542</u>

NOTE 6 – LONG-TERM DEBT

The long-term liabilities for the governmental activities at year end is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 21,535	\$ 35,693	\$ 28,748	\$ 28,480	\$ 25,632
Total Governmental Activities	<u>\$ 21,535</u>	<u>\$ 35,693</u>	<u>\$ 28,748</u>	<u>\$ 28,480</u>	<u>\$ 25,632</u>
Long-Term Liabilities Due In More Than One Year				<u>\$ 2,848</u>	

NOTE 7 – INTERFUND TRANSACTIONS

Transfers between the governmental funds during the year were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Hobby area improvement fund	General fund	\$ 50,000

HOBBY AREA DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

The composition of interfund balances as of year end were as follows:

Due from	Due To	Amount
Hobby area improvement fund	General fund	\$ 4,198

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

NOTE 9 – AGREEMENT WITH SCENIC HOUSTON

On February 12, 2015, the District entered into an agreement (the "Agreement") with Scenic Houston regarding the Broadway/Hobby Corridor Redevelopment Project (the "Project"). The District agreed to pay \$134,678 for the installation of enhanced streetlights (the "Streetlight Payment") along Broadway Street. The District also agreed to pay the City of Houston approximately \$549,722 for excess costs (the "Excess Costs Payment"), as defined in the Agreement, related to the Project.

On May 12, 2016, the District entered into another agreement (the "New Agreement") with Scenic Houston regarding the Project. After completion of the Project, Scenic Houston and the District intend to work together to design, develop, and construct additional enhanced landscaping and other streetscape improvements to Broadway Street (the "Enhanced Project") to further beautify and enhance Broadway Street as a gateway to Hobby Airport.

Scenic Houston has agreed to engage in a comprehensive fundraising campaign to obtain private and/or public funding from donors to provide funds to pay for the costs of the development, construction, and interim maintenance of the Project and the Enhanced Project. Scenic Houston is responsible for making payments directly to the contractor engaged to construct the Enhanced Project. Under the New Agreement, the District subordinates its right to be paid the Streetlight Payment to the payment in full of the Excess Costs Payment and to the payment in full of the costs related to the preparation of the construction drawings for the Enhanced Project. Repayment by Scenic Houston will only be made after it has net proceeds in hand from the fundraising campaign. Scenic Houston's obligation to repay the District for the Excess Costs Payment shall not exceed the greater of the actual payments made by the District or \$549,722 without the prior written approval of Scenic Houston.

During the current fiscal year, the District received a reimbursement of \$352,760 for the Project

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REQUIRED SUPPLEMENTARY INFORMATION

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HOBBY AREA DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2018

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance Positive (Negative)
Revenues				
Property assessment revenue	\$ 1,881,901	\$ 1,881,901	\$ 1,793,890	\$ (88,011)
Penalty and interest revenue	36,000	36,000	20,599	(15,401)
Investment earnings	4,500	4,500	28,170	23,670
Other income	557,432	557,432	362,053	(195,379)
Total Revenues	2,479,833	2,479,833	2,204,712	(275,121)
Expenditures				
Service operations:				
Professional fees	60,000	60,000	50,526	9,474
Contracted services	166,833	166,833	617,003	(450,170)
Public safety and security	603,975	603,975	367,727	236,248
Environmental and urban design	969,605	969,605	458,528	511,077
Business and economic development	582,485	582,485	288,893	293,592
Communication, public affairs and marketing	320,479	320,479	103,161	217,318
Other	152,470	152,470	82,671	69,799
Capital outlay	569,287	569,287	513,474	55,813
Total Expenditures	3,425,134	3,425,134	2,481,983	943,151
(Deficiency) of Revenues (Under) Expenditures	(945,301)	(945,301)	(277,271)	668,030
Other Financing Sources (Uses)				
Transfers (out)	(50,000)	(50,000)	(50,000)	-
Total Other Financing (Uses)	(50,000)	(50,000)	(50,000)	-
Change in Fund Balance	\$ (995,301)	\$ (995,301)	(327,271)	\$ 668,030
Beginning fund balance			1,324,100	
Ending Fund Balance			\$ 996,829	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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TEXAS SUPPLEMENTARY INFORMATION

HOBBY AREA DISTRICT
TSI-2 GENERAL FUND EXPENDITURES
For the Year Ended December 31, 2018

	<u>General Fund Expenditures</u>
Purchased Services:	
Public safety and security	\$ 367,727
Environmental and urban design	458,528
Business and economic development	288,893
Communication, public affairs, and marketing	103,161
	<u>1,218,309</u>
Professional Fees:	
Auditing	15,100
Legal	35,426
	<u>50,526</u>
Contracted Services:	
Bookkeeping	10,200
Assessment collector	35,148
District administrator	139,484
Project management	432,171
	<u>617,003</u>
Administrative:	
Office supplies	16,218
Postage	586
Insurance	6,524
Other	59,343
	<u>82,671</u>
Capital Outlay	<u>513,474</u>
Total Expenditures	<u><u>\$ 2,481,983</u></u>

HOBBY AREA DISTRICT

TSI-3 TEMPORARY INVESTMENTS

For the Year Ended December 31, 2018

<u>General Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>
Certificate of deposit	4188617	0.40%	07/14/19	\$ 247,356
TexSTAR	2551011110	Varies	Daily	512,452
Total				\$ 759,808

HOBBY AREA DISTRICT

TSI-4 ANALYSIS OF ASSESSMENT LEVIED AND RECEIVABLE

For the Year Ended December 31, 2018

	General
Assessment Receivable - Beginning of Year	\$ 1,742,191
Adjusted to beginning balance	(28,781)
Original assessment roll - 2018	1,907,272
Total to be Accounted for	3,620,682
Assessment Collections:	
Current year	297,644
Prior years	1,681,731
Total Collections	1,979,375
Assessment Receivable, Net - End of Year	\$ 1,641,307

Assessment Receivable - By Year	
2018	\$ 1,609,627
2017	19,805
2016	5,186
2015	2,540
2014	1,962
2013	2,187
Assessment Receivable, Net - End of Year	\$ 1,641,307

	2018	2017	2016	2015	2014
Assessed Property Valuations	\$ 1,294,758,688	\$ 1,247,614,971	\$ 1,210,422,141	\$ 1,150,252,742	\$ 1,042,889,920
Total Assessment Rate	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15
Assessment Rolls	\$ 1,907,272	\$ 1,830,200	\$ 1,784,644	\$ 1,700,572	\$ 1,564,335

HOBBY AREA DISTRICT
TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND
For Last Five Years

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Property assessment	\$ 1,793,890	\$ 1,739,874	\$ 1,690,544	\$ 1,533,917	\$ 1,327,509
Penalty and interest revenue	20,599	20,435	27,983	28,583	19,300
Investment earnings	28,170	12,348	5,251	1,925	1,097
Other income	362,053	360,533	-	-	-
Total Revenues	2,204,712	2,133,190	1,723,778	1,564,425	1,347,906
Expenditures					
Professional fees	50,526	27,562	36,510	28,930	27,561
Contracted services	617,003	477,933	183,282	150,102	124,334
Public safety and security	367,727	397,613	364,074	313,939	198,273
Environmental and urban design	458,528	386,566	200,581	65,000	27,083
Business and economic developmer	288,893	74,448	183,562	142,714	72,747
Communication, public affairs, and marketing	103,161	38,625	-	-	-
Other	82,671	81,301	62,139	26,926	16,413
Capital outlay	513,474	78,238	490,162	606,032	362,195
Total Expenditures	2,481,983	1,562,286	1,566,478	1,333,643	828,606
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	\$ (277,271)	\$ 570,904	\$ 157,300	\$ 230,782	\$ 519,300

Percentage of Total				
2018	2017	2016	2015	2014
81.4 %	81.6 %	98.1 %	98.0 %	98.5 %
0.9	1.0	1.6	1.8	1.4
1.3	0.6	0.3	0.1	0.1
16.3	16.8	0.0	0.0	0.0
100.0	100.0	100.0	100.0	100.0
2.0	1.8	2.3	2.2	3.3
24.9	30.6	11.7	11.3	15.0
14.8	25.4	23.2	23.5	23.9
18.5	24.7	12.8	4.9	3.3
11.6	4.8	11.7	10.7	8.8
4.2	2.5	0.0	0.0	0.0
3.3	5.2	4.0	2.0	2.0
20.7	5.0	31.3	4.5	43.7
100.0	100.0	100.0	100.0	100.0
(12.6) %	26.8 %	9.1 %	14.8 %	38.5 %

HOBBY AREA DISTRICT
TSI-8 BOARD MEMBERS, AND CONSULTANTS
For the Year Ended December 31, 2018

District's Mailing Address:

Harris County Improvement District No.9
8121 Broadway, Suite 199
Houston, TX 77061

District's Business Telephone Number:

832-982-2036

<u>Board Members</u>	<u>Term</u>	<u>Fees</u>	<u>Expenses</u>	<u>Title</u>
Danny R. Perkins	06/17-06/21 Appointed	\$ -	\$ -	Position 1 Chairman
Helen Bonsall	06/17-06/21 Appointed	\$ -	\$ -	Position 2 Vice Chair
Todd Szilagyi	06/17-06/21 Appointed	\$ -	\$ -	Position 3
Jesus H. Saenz	06/17-06/21 Appointed	\$ -	\$ -	Position 4
Ann Collum	06/17-06/21 Appointed	\$ -	\$ -	Position 5
Sue De Haven	06/17-06/21 Appointed	\$ -	\$ -	Position 6 Secretary
Keyur Amin	10/17-06/19 Appointed	\$ -	\$ -	Position 7
Joe Ed Nelson	06/15-06/19 Appointed	\$ -	\$ -	Position 8
Darryl Bailey	06/15-06/19 Appointed	\$ -	\$ -	Position 9
Vic J. Zachary	06/15-06/19 Appointed	\$ -	\$ -	Position 10
James Brown	08/17-06/19 Appointed	\$ -	\$ -	Position 11

Submission Date of the most recent District Registration Form:

4/11/2019

Limit on Fees of Office that a Director may receive during a fiscal year:

\$7,200

HOBBY AREA DISTRICT

TSI-8 BOARD MEMBERS, AND CONSULTANTS (Continued)

For the Year Ended December 31, 2018

Consultants	Date Hired	Fees	Title
Hawes Hill Calderon, LLP 8121 Broadway, Suite 199 Houston, TX 77061	08/24/07	\$ 51,000	Administrator
Equi Tax, Inc. P.O. Box 73109 Houston, TX 77273-3109	09/19/07	\$ 35,148	Assessment Collector
Bracewell & Giuliani, LLP 711 Louisiana Street, Suite 2300 Houston, TX 77339	07/24/13	\$ -	Attorney
Perdue, Brandon, Fielder, Collins & Mott, LLP 1235 North Loop West, Suite 600 Houston, TX 77025	06/12/14	\$ 9,967	Delinquent Assessment Attorney
Clark Condon & Associates 10401 Stella Link Road Houston, TX 77025	02/13/14	\$ 31,290	Environmental Design Services
Roland, Fry & Warren, LLC 1525 Lakeville Drive , Suite 121 Kingwood, TX 77339	05/18/14	\$ 3,600	Investment Officer
Governmental Financial Reporting LLC 1525 Lakeville Drive , Suite 121 Kingwood, TX 77339	12/01/15	\$ 10,616	Bookkeeper
Belt Harris Pechacek, LLLP 3210 Bingle Rd., Suite 300 Houston, TX 77055	01/08/15	\$ 11,500	Auditor



Required Auditor Disclosure Letter

June 19, 2019

To the Board of Directors of the
Hobby Area District:

We have audited the financial statements of the governmental activities and the major fund of the Hobby Area District (the "District") as of and for the year ended December 31, 2018, and have issued our report thereon dated June 19, 2019. Professional standards require that we provide the Board of Directors (the "governing body") with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit.

I. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 10, 2018 our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with the governing body's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to management in our engagement letter dated May 10, 2018.

III. Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

- A. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

- B. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of capital assets as based on industry standards relating to capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

- C. The disclosures in the financial statement are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were detected as a result of audit procedures. During the audit, we noted trivial instances related to credit card expenditures and expense reimbursements.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 19, 2019.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

IV. Other Matters

We applied certain limited procedures to the Required Supplementary Information (RSI), as identified on the table of contents, which supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the Texas Supplementary Information, which accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

V. Restrictions on Use

This information is intended solely for the use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

 BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas



Management Letter

June 19, 2019

To the Board of Directors of the
Hobby Area District:

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to the District. Accordingly, the District's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

Our report is as follows:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hobby Area District (the "District") as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be other matters.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our findings and additional comments are as follows:

CURRENT YEAR MATTERS

Signification Deficiencies

2018.001 CREDIT CARD AND EXPENSE REIMBURSEMENTS

Background

Public servants are subjected by their adversaries to a level of scrutiny not endured by the private sector or individuals. With that scrutiny in mind, support for expense of public monies must be sufficient to mitigate allegations. Prior to our audit the Board had placed additional emphasis on the District's documentation of employee related expenses and initiate a project to review the transactions unrelated to the audit. Based on our initial inquires we increased our risk assessment in this area and weighted a great portion of sample testing specifically to the transaction class.

Finding

In our initial sampling of expenditures, we noted that the District's support of a number of credit card expenditures and expense reimbursements indicated exceptions to the District's policies, and accordingly our testing was expanded. The expanded sample results were consistent with our initial findings indicating pervasive exceptions. Expense reports lacked consistent evidence of approval by supervisor, support for transaction, or support for transaction which agreed to the amount on the statement or expense report. In some instances, expense reports were not on file, a credit card statement was not on file and/or credit card report contained identical amounts without sufficient information to support that a duplicate payment was not made. After the District reviewed and provided additional supporting documents, there were 3 credit card expenses missing receipts, and the amounts were \$16.76, \$139.55 and \$5.72 respectively. The total amount was \$162.03 for the missing receipts from the samples selected.

Recommendation

The District should consider making a concerted effort to channeling purchase through traditional means where as goods or services are invoiced to the District and paid by check. When point to point sale or reimbursed expense is required, all credit card statements and expense reports, along with supporting documents should be approved and approval granted, which may be evidenced with initial or signature. The individual incurring the charges or submitting for reimbursement should ensure that supporting documents are available to support all transactions. If identical charges are incurred, notations should be made so as to indicate why there is more than one charge for the same item.

Management's Response

The District acknowledges the finding of 3 credit card receipts missing from the support provided for the review of expenditures. As discussed with the auditors prior to their addition of expense review procedures to the audit program, the District initiated review of employee expense reports and supporting documentation to determine the effectiveness of review and approval procedures. Upon completion of the review, the District will evaluate any findings to determine whether additional policies or procedures are required to ensure propriety of employee expenses. Additionally, the District intends to implement a policy that includes, among other things, a requirement that unsupported expenses will not be reimbursed.

Other Matters

2018.002 ESCHEATED FUNDS

Background

Under Texas State *Property Code Chapter 72, Subchapter B. § 72.101*, property is presumed abandoned if the owner of the property does not claim the property within three years. Under Texas State *Property Code Chapter 74, Subchapter D. 74.301*, each holder who on March 1 holds property that is presumed abandoned under Chapter 72 shall deliver the property to the comptroller on or before the following July 1 accompanied by the report required to be filed under Section 74.101. Under Texas State *Property Code Chapter 74, Subchapter B. §74.101*, each holder who on March 1 holds property that is presumed abandoned under Chapter 72 of this code shall file a report of that property on or before the following July 1.

Finding

The District had approximately four outstanding checks written before 2017, with two dating back to 2014 that have not been escheated. The total amounts of the checks were less than \$1,000.

Recommendation

The District should establish a policy for the escheating of outstanding checks that meet the criteria of Texas State Property Code.

2018.003 PUBLIC FUNDS INVESTMENT ACT

Background

Chapter 2256 of the Texas Government Code, Public Funds Investment Act (the “Act”) (PFIA) prescribes certain requirements for governmental entities investing public funds. Some of the more basic requirements of the Act include: a written investment policy that must be reviewed and approved annually, mandatory training requirements for designated individuals, written evidence that an entity offering to engage in investment transactions with the District has received and reviewed the investment policy and acknowledged that they have implemented reasonable procedures and controls in an effort to preclude investment transactions not authorized by the District’s policy, and preparation and approval of quarterly investment reports in compliance with the Act.

Finding

During the audit, it was noted that the quarterly investment reports had not been approved by the Board of Directors.

Recommendation

The District should take necessary steps to ensure in compliance with the Act.

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