

ANNUAL FINANCIAL REPORT

of the

**HARRIS COUNTY
IMPROVEMENT DISTRICT No. 9**

**For the Year Ended
December 31, 2015**

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

TABLE OF CONTENTS

December 31, 2015

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Statement of Net Position and Balance Sheet – Governmental Fund	13
Reconciliation of the Government Fund Balance Sheet to the Statement of Net Position	15
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	19
Notes to Financial Statements	21
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Budgetary Comparison Schedule – General Fund	31
<u>TEXAS SUPPLEMENTARY INFORMATION</u>	
	<u>Schedules</u>
General Fund Expenditures	TSI-2 35
Temporary Investments	TSI-3 36
Analysis of Assessment Levied and Receivable	TSI-4 37
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7 38
Board Members, Key Personnel, and Consultants	TSI-8 39

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Harris County Improvement District No. 9:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Harris County Improvement District No. 9 dba Hobby Area District (the "District") as of and for the year ended December 31, 2015, 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.

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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, 2015, 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 express no opinion or provide any assurance on it.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
August 5, 2016

***MANAGEMENT DISCUSSION
AND ANALYSIS***

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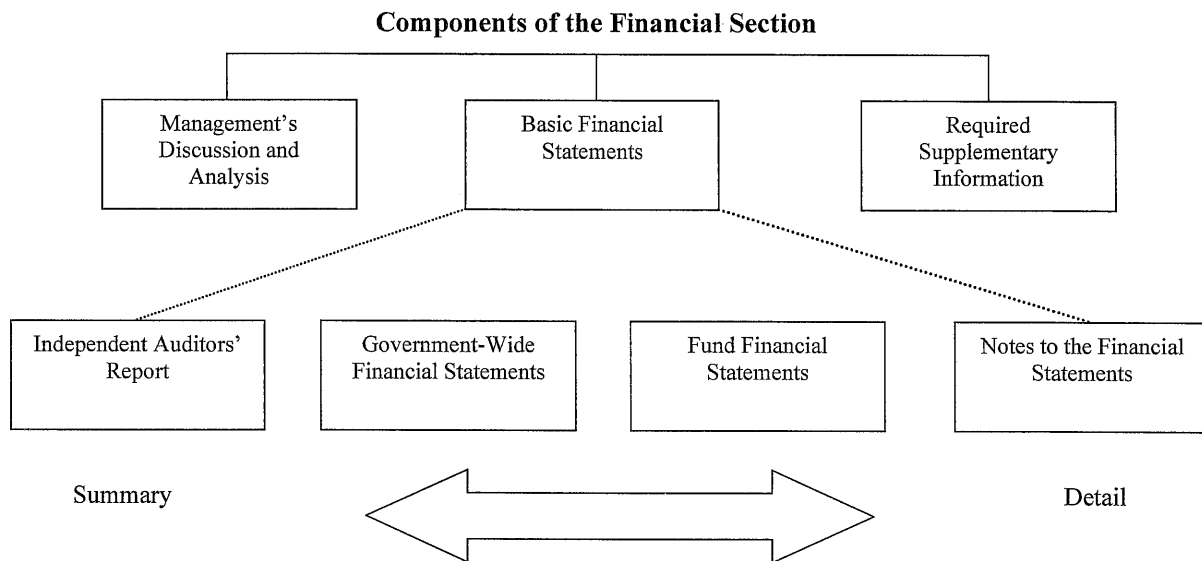
HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2015

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 Harris County Improvement District No. 9 dba Hobby Area District (the "District") for the year ending December 31, 2015. 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 infrastructure 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 inflows/outflows 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 non-financial 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

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

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 of 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 one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is always considered a major fund 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.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

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 \$1,645,111 as of December 31, 2015.

A portion of the District's net position reflects its investments in capital assets (e.g., land, equipment, and infrastructure) 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. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

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

		Governmental Activities	
		2015	2014
Current and other assets	\$	2,452,239	\$ 2,099,733
Capital assets, net		968,227	362,195
Total Assets		3,420,466	2,461,928
Other liabilities		74,783	86,464
Total Liabilities		74,783	86,464
Deferred inflows - property assessment		1,700,572	1,542,070
Total Deferred Inflows of Resources		1,700,572	1,542,070
Net Position:			
Net investment in capital assets		968,227	362,195
Unrestricted		676,884	471,199
Total Net Position	\$	1,645,111	\$ 833,394

During the current fiscal year, the District's net position increased by \$811,717. The revenue recognition for the 2015 assessment has been fully deferred to the 2016 fiscal year.

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

Statement of Activities:

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

		Governmental Activities	
		2015	2014
Revenues			
Property assessment	\$	1,508,820	\$ 1,383,594
Other revenues		30,508	20,397
Total Revenues		<u>1,539,328</u>	<u>1,403,991</u>
Expenses			
Professional services		28,930	27,564
Contracted services		150,102	124,334
Public safety and security		313,939	198,273
Environmental and urban design		65,000	27,083
Business and economic development		142,714	72,747
Other		26,926	16,413
Total Expenses		<u>727,611</u>	<u>466,414</u>
Change in Net Position		811,717	937,580
Beginning net position		<u>833,394</u>	<u>(104,186)</u>
Ending Net Position	\$	<u>1,645,111</u>	<u>\$ 833,394</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 Fund – The District's general fund fund balance as of December 31, 2015 was \$645,896.

The fund balance increased by \$230,782 from prior year. This increase was due to the District assessment and collections of property assessment during the fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$96,069 less than budgeted primarily as the result of a donation funded reimbursement and the street light project reimbursement that were budgeted for but not received. Actual expenditures were \$307,623 less than budgeted primarily due to less public safety and security, capital outlay, and business and economic development expenditures than anticipated.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

CAPITAL ASSETS

At the end of the year, the District's government activities had invested \$968,227 in a variety of capital assets, net of accumulated depreciation.

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

- Broadway Boulevard from I-45 to Airport Boulevard improvement for \$606,032

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 2016 are \$2,320,121. The District's property assessment rate will be \$0.15 per \$100 for the 2016 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 Harris County Improvement District No. 9, c/o Hawes Hill Calderon, LLP, 9610 Long Point Road, Suite 150, Houston, Texas 77055.

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BASIC FINANCIAL STATEMENTS

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

STATEMENT OF NET POSITION AND BALANCE SHEET - GOVERNMENTAL FUND

December 31, 2015

	Governmental Fund Balance Sheet General Fund	Adjustments	Statement of Net Position
<u>Assets</u>			
Cash and cash equivalents	\$ 379,160	\$ -	\$ 379,160
Investments	617,613	-	617,613
Property assessment receivable	1,455,466	-	1,455,466
Construction in progress	-	968,227	968,227
Total Assets	<u>2,452,239</u>	<u>968,227</u>	<u>3,420,466</u>
<u>Liabilities</u>			
Accounts payable	74,783	-	74,783
Total Liabilities	<u>74,783</u>	<u>-</u>	<u>74,783</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - property assessment	1,731,560	(30,988)	1,700,572
Total Deferred Inflows of Resources	<u>1,731,560</u>	<u>(30,988)</u>	<u>1,700,572</u>
<u>Fund Balance/Net Position</u>			
Fund balance:			
Unassigned	645,896	(645,896)	-
Total Fund Balance	<u>645,896</u>	<u>(645,896)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 2,452,239</u></u>		
Net Position:			
Net investment in capital assets		968,227	968,227
Unrestricted		676,884	676,884
Total Net Position		<u><u>\$ 1,645,111</u></u>	<u><u>\$ 1,645,111</u></u>

See Notes to Financial Statements.

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HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION

For the Year Ended December 31, 2015

Total fund balance for governmental fund	\$ 645,896
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.	30,988
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	<u>968,227</u>
Net Position of Governmental Activities	<u>\$ 1,645,111</u>

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

For the Year Ended December 31, 2015

	Statement of Revenues, Expenditures, and Changes in Fund Balance General Fund	Adjustments	Statement of Activities
Revenues			
Property assessment	\$ 1,533,917	\$ (25,097)	\$ 1,508,820
Penalty and interest revenue	28,583	-	28,583
Investment earnings	1,925	-	1,925
Total Revenues	<u>1,564,425</u>	<u>(25,097)</u>	<u>1,539,328</u>
Expenditures/Expenses			
Service operations:			
Professional fees	28,930	-	28,930
Contracted services	150,102	-	150,102
Public safety and security	313,939	-	313,939
Environmental and urban design	65,000	-	65,000
Business and economic development	142,714	-	142,714
Other	26,926	-	26,926
Capital outlay	<u>606,032</u>	<u>(606,032)</u>	<u>-</u>
Total Expenditures/Expenses	<u>1,333,643</u>	<u>(606,032)</u>	<u>727,611</u>
 Net Change in Fund Balance/Net Position	 <u>230,782</u>	 <u>580,935</u>	 <u>811,717</u>
 Beginning fund balance/net position	 <u>415,114</u>	 <u>418,280</u>	 <u>833,394</u>
 Ending Fund Balance/Net Position	 <u><u>\$ 645,896</u></u>	 <u><u>\$ 999,215</u></u>	 <u><u>\$ 1,645,111</u></u>

See Notes to Financial Statements.

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Net change in fund balance - total governmental fund	\$ 230,782
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 purchases.	(25,097)
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>606,032</u>
Change in Net Position of Governmental Activities	<u><u>\$ 811,717</u></u>

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

NOTE 1 – CREATION OF DISTRICT

Harris County Improvement District No. 9 dba 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”) 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.

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. There are no component units that are legally separate for which the District is considered financially accountable.

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 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. There are no other organizations which meet the criteria for inclusion herein as part of the financial reporting entity.

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. 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.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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 fund:

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.

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 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 compensated absences and 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 year end). 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 year end). All other revenue items are considered to be measurable and available only when cash is received by the District.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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

1. Budget

An unappropriated budget is adopted for the general fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

2. 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.

3. Investments

Temporary investments consist of certificates of deposit and time deposits and are stated at cost, which approximates market value.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, any infrastructure has been capitalized retroactively. Capital assets are defined by the government 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 estimated fair market 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.

Interest costs incurred in connection with the construction of governmental fund capital assets are capitalized when the effects of capitalization materially impact the financial statements. 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.

5. 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

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

period that the amount becomes available. At the government-wide level, the District reports a deferred inflow of resource for that portion of property assessment that was collected for use in the subsequent period.

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 of Directors 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.

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 of Directors 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.

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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 and 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, 2015, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity(Years)</u>
Certificates of deposit	\$ 247,179	0.53
TexSTAR	370,433	0.00
Total Fair Value	\$ 617,612	
Portfolio weighted average maturity		0.37

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. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that its deposits be fully insured by FDIC insurance or its agencies and instrumentalities. As of year end, the District's FDIC coverage and collateral pledged exceeded bank balances.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, 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. The District's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the District's safekeeping account prior to the release of funds.

Credit risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2015, the District's investment in TexSTAR was rated "AAAm" by Standard & Poor's

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, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services. Finally, Standard and Poor's rate TexSTAR 'AAAm'. New TexSTAR operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR uses amortized cost rather than market value to report net

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

assets to compute share prices. Accordingly, the fair value of the position in TexSTAR is the same as the value of TexSTAR shares.

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 was adopted granting a petition for a service plan and an assessment roll for the District. The order authorized levying an annual assessment which would assure sufficient funding for the services to be provided under the ten-year (2008-2017) 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 2015 assessment year, the District levied an ad valorem assessment of \$0.15 per \$100 of assessed valuation, resulting in an assessment of \$1,700,572. Revenue recognition for the 2015 assessment has been fully deferred to the 2016 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

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2015 is as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Governmental Activities				
Capital assets not being depreciated:				
Construction in progress	\$ 362,195	\$ 606,032	\$ -	\$ 968,227
Total capital assets not being depreciated	<u>-</u>	<u>606,032</u>	<u>-</u>	<u>968,227</u>
 Governmental Activities				
Capital Assets, Net	<u>\$ 362,195</u>	<u>\$ 606,032</u>	<u>\$ -</u>	<u>\$ 968,227</u>
		Net Investment in Capital Assets		<u>\$ 968,227</u>

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

NOTE 6 – 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 which exceeded coverage amounts for the past three years.

NOTE 7 – AGREEMENT WITH SCENIC HOUSTON

On February 12, 2015, the District entered into an 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.

Scenic Houston has agreed to engage in a comprehensive fundraising campaign to obtain private funding from donors to (i) provide funds to pay for the costs of the design, development, construction, and interim maintenance of the Project and (ii) provide funds to repay the District for the Streetlight Payment and the Excess Costs Payment. Repayment by Scenic Houston will only be made after Scenic Houston 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended December 31, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance Positive (Negative)
Revenues				
Property assessment revenue	\$ 1,465,516	\$ 1,465,516	\$ 1,533,917	\$ 68,401
Penalty and interest revenue	20,000	20,000	28,583	8,583
Investment earnings	300	300	1,925	1,625
Donations	40,000	40,000	-	(40,000)
Street light reimbursement	134,678	134,678	-	(134,678)
Total Revenues	<u>1,660,494</u>	<u>1,660,494</u>	<u>1,564,425</u>	<u>(96,069)</u>
Expenditures				
Service operations:				
Professional fees	33,000	33,000	28,930	4,070
Contracted services	144,804	144,804	150,102	(5,298)
Public safety and security	291,580	341,580	313,939	27,641
Environmental and urban design	52,500	52,500	65,000	(12,500)
Business and economic development	298,700	298,700	142,714	155,986
Other	60,900	60,900	26,926	33,974
Capital outlay	<u>709,782</u>	<u>709,782</u>	<u>606,032</u>	<u>103,750</u>
Total Expenditures	<u>1,591,266</u>	<u>1,641,266</u>	<u>1,333,643</u>	<u>307,623</u>
Net Change in Fund Balance	<u>\$ 69,228</u>	<u>\$ 19,228</u>	<u>230,782</u>	<u>\$ 211,554</u>
Beginning fund balance			<u>415,114</u>	
Ending Fund Balance			<u>\$ 645,896</u>	

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

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

TSI-2 GENERAL FUND EXPENDITURES

For the Year Ended December 31, 2015

Purchased Services:

Public safety and security	\$ 313,939
Environmental and urban design	65,000
Business and economic development	142,714
	<u>521,653</u>

Professional Fees:

Auditing	6,050
Legal	22,880
	<u>28,930</u>

Contracted Services:

Bookkeeping	7,200
Assessment collector	31,398
District administrator	111,504
	<u>150,102</u>

Administrative:

Office supplies	5,381
Postage	282
Insurance	1,732
Other	19,531
	<u>26,926</u>

Capital Outlay

606,032

Total Expenditures \$ 1,333,643

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

TSI-3 TEMPORARY INVESTMENTS

For the Year Ended December 31, 2015

General Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance
Certificates of deposit	4188617	0.40%	7/14/2016	\$ 247,179
TexSTAR	255011110	Varies	Daily	370,433
			Total	\$ 617,612

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

TSI-4 ANALYSIS OF ASSESSMENT LEVIED AND RECEIVABLE

For the Year Ended December 31, 2015

	General Fund
Assessment Receivable - Beginning of Year	\$ 1,345,767
Adjusted to beginning balance	(32,348)
Original assessment roll -2015	1,700,572
Total to be Accounted for	3,013,991
Assessment Collections:	
Current year	274,356
Prior years	1,284,169
Total Collections	1,558,525
Assessment Receivable, Net - End of Year	\$ 1,455,466

Assessment Receivable - By Year	
2015	\$ 1,424,478
2014	22,127
2013	8,861
Assessment Receivable, Net - End of Year	\$ 1,455,466

	2015	2014	2013
Assessed Property Valuations	\$ 1,150,252,742	\$ 1,042,889,920	\$ 937,070,640
Total Assessment Rate (per \$100 Valuation)	\$ 0.15	\$ 0.15	\$ 0.15
Assessment Rolls	\$ 1,700,572	\$ 1,564,335	\$ 1,405,606

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES

GENERAL FUND

For Last Two Years

	Amounts		Percentage of Total	
	2015	2014	2015	2014
<u>General Fund Revenues</u>				
Property assessment	\$ 1,533,917	\$ 1,327,509	98.1 %	98.5 %
Penalty and interest revenue	28,583	19,300	1.8	1.4
Investment earnings	1,925	1,097	0.1	0.1
Total Revenues	1,564,425	1,347,906	100.0	100.0
<u>General Fund Expenditures</u>				
Professional fees	28,930	27,561	2.2	3.3
Contracted services	150,102	124,334	11.3	15.0
Public safety and security	313,939	198,273	23.5	24
Environmental and urban design	65,000	27,083	4.9	3
Business and economic development	142,714	72,747	10.7	9
Other	26,926	16,413	2.0	2.0
Capital outlay	606,032	362,195	45.4	44
Total Expenditures	1,333,643	828,606	100.0	100.0
Revenues Over Expenditures	\$ 230,782	\$ 519,300	\$ 14.8 %	38.5 %

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

TSI-8 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS

For the Year Ended December 31, 2015

District's Mailing Address:

Harris County Improvement District No.9
c/o Hawes Hill Calderon, LLP
9610 Long Point Road, Suite 150
Houston, TX 77055

District's Business Telephone Number:

(713) 595-1200

<u>Board Members</u>	<u>Term</u>	<u>Fees</u>	<u>Expenses</u>	<u>Title</u>
Danny R. Perkins	06/13-06/17 Appointed	\$ -	\$ -	Position 1 Chairman
Helen Bonsall	06/13-06/17 Appointed	\$ -	\$ -	Position 2 Vice Chair
Todd Szilagyi	01/14-06/17 Appointed	\$ -	\$ -	Position 3
Jesus H. Saenz	04/16-06/17 Appointed	\$ -	\$ -	Position 4
Ann Collum	06/13-06/17 Appointed	\$ -	\$ -	Position 5
Sue De Haven	10/13-06/17 Appointed	\$ -	\$ -	Position 6 Secretary
Marjorie Evans	06/15-06/19 Appointed	\$ -	\$ -	Position 7
Joe Ed Nelson	05/15-06/19 Appointed	\$ -	\$ -	Position 8
Darryl Bailey	06/15-06/19 Appointed	\$ -	\$ -	Position 9
Vic J. Zachary	06/15-06/19 Appointed	\$ -	\$ -	Position 10
Alberto Cardenas	09/14-06/19 Appointed	\$ -	\$ -	Position 11

Submission Date of the most recent District Registration Form:

5/20/2008

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

\$7,200

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

TSI-8 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS(Continued)

For the Year Ended December 31, 2015

Consultants	Date Hired	Fees	Title
Hawes Hill Calderon, LLP 9610 Long Point Road, Suite 150 Houston, TX 77055	08/24/07	\$ 179,743	Administrator
Equi Tax, Inc. P.O. Box 73109 Houston, TX 77273-3109	09/19/07	\$ 31,398	Assessment Collector
Bracewell & Giuliani, LLP 711 Louisiana Street, Suite 2300 Houston, TX 77339	07/24/13	\$ 22,880	Attorney
Roland, Fry & Warren, P. C. 1525 Lakeville Drive, Suite 121 Kingwood, TX 77339	02/13/14	\$ 10,857	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP 1235 North Loop West, Suite 600 Houston, TX 77025	06/12/14	\$ 18,992	Delinquent Assessment Attorney
Clark Condon & Associates 10401 Stella Link Road Houston, TX 77025	02/13/14	\$ -	Environmental Design Services
Nathelyne A. Kennedy & Associates 6200 Savoy Dr., Suite 1250 Houston, TX 77036	08/14/14	\$ -	Engineers
Roland, Fry & Warren, LLC 1525 Lakeville Drive , Suite 121 Kingwood, TX 77339	05/18/14	\$ -	Investment Officer
Governmental Financial Reporting LLC 1525 Lakeville Drive , Suite 121 Kingwood, TX 77339	12/01/15	\$ 648	Bookkeeper
Belt Harris Pechacek, LLLP 3210 Bingle Rd., Suite 300 Houston, TX 77055	01/08/15	\$ 2,450	Auditor