

ANNUAL FINANCIAL REPORT

of the

**HARRIS COUNTY
IMPROVEMENT DISTRICT No. 9**

For the Year Ended
December 31, 2016

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

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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, 2016, 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, 2016, 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
March 31, 2017

***MANAGEMENT DISCUSSION
AND ANALYSIS***

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For the Year Ended December 31, 2016

THE STRUCTURE OF OUR ANNUAL REPORT



HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2016

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 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, 2016

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 \$2,290,304 as of December 31, 2016.

A portion of the District's net position, \$1,458,389 or 64%, 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 provides a summary of the District's change in net position:

		Governmental Activities	
		2016	2015
Current and other assets	\$	2,768,742	\$ 2,452,239
Capital assets, net		1,458,389	968,227
Total Assets		4,227,131	3,420,466
Other liabilities		152,183	74,783
Total Liabilities		152,183	74,783
Deferred inflows - property assessment		1,784,644	1,700,572
Total Deferred Inflows of Resources		1,784,644	1,700,572
Net Position:			
Net investment in capital assets		1,458,389	968,227
Unrestricted		831,915	676,884
Total Net Position	\$	2,290,304	\$ 1,645,111

During the current fiscal year, the District's net position increased by \$645,193 mainly due to the property tax assessment increase. The revenue recognition for the 2016 assessment has been fully deferred to the 2017 fiscal year.

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2016

Statement of Activities:

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

	Governmental Activities	
	2016	2015
Revenues		
Property assessment	\$ 1,688,275	\$ 1,508,820
Other revenues	33,234	30,508
Total Revenues	<u>1,721,509</u>	<u>1,539,328</u>
Expenses		
Professional services	36,510	28,930
Contracted services	183,282	150,112
Public safety and security	364,074	313,939
Community development	46,168	-
Environmental and urban design	200,581	65,000
Business and economic development	183,562	142,174
Other	62,139	26,926
Total Expenses	<u>1,076,316</u>	<u>727,081</u>
Change in Net Position	645,193	811,717
Beginning net position	<u>1,645,111</u>	<u>833,394</u>
Ending Net Position	<u>\$ 2,290,304</u>	<u>\$ 1,645,111</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, 2016 was \$803,196. The fund balance increased by \$157,300 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 \$87,308 less than budgeted primarily as the result of grants and donations were budgeted, but not received. Actual expenditures were \$753,643 less than budgeted primarily due to less 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, 2016

CAPITAL ASSETS

At the end of the year, the District's government activities had invested \$1,458,389 in construction in progress.

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

- Branding geographic identity project for \$209,127.
- Esplanade enhancement project for \$79,259.
- Streetscape amenities project for \$46,456.

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 2017 are \$3,296,590. The District's property assessment rate will be \$0.15 per \$100 for the 2017 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, 8121 Broadway, Suite 199, Houston, Texas 77061.

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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, 2016

	Governmental Fund Balance Sheet General	Adjustments	Statement of Net Position
<u>Assets</u>			
Cash and cash equivalents	\$ 427,841	\$ -	\$ 427,841
Investments	697,712	-	697,712
Property assessment receivable	1,643,189	-	1,643,189
Construction in progress	-	1,458,389	1,458,389
Total Assets	2,768,742	1,458,389	4,227,131
<u>Liabilities</u>			
Accounts payable	152,183	-	152,183
Total Liabilities	152,183	-	152,183
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - property assessment	1,813,363	(28,719)	1,784,644
Total Deferred Inflows of Resources	1,813,363	(28,719)	1,784,644
<u>Fund Balance/Net Position</u>			
Fund balance:			
Unassigned	803,196	(803,196)	-
Total Fund Balance	803,196	(803,196)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,768,742		
<u>Net Position:</u>			
Net investment in capital assets		1,458,389	1,458,389
Unrestricted		831,915	831,915
Total Net Position		\$ 2,290,304	\$ 2,290,304

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

December 31, 2016

Total fund balance for governmental fund	\$ 803,196
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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.	28,719
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	<u>1,458,389</u>
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Net Position of Governmental Activities	<u><u>\$ 2,290,304</u></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, 2016

	Statement of Revenues, Expenditures, and Changes in Fund Balance		Statement of Activities
	General	Adjustments	
Revenues			
Property assessment	\$ 1,690,544	\$ (2,269)	\$ 1,688,275
Penalty and interest revenue	27,983	-	27,983
Investment earnings	5,251	-	5,251
Total Revenues	<u>1,723,778</u>	<u>(2,269)</u>	<u>1,721,509</u>
Expenditures/Expenses			
Service operations:			
Professional fees	36,510	-	36,510
Contracted services	183,282	-	183,282
Public safety and security	364,074	-	364,074
Community development	46,168	-	46,168
Environmental and urban design	200,581	-	200,581
Business and economic development	183,562	-	183,562
Other	62,139	-	62,139
Capital outlay	<u>490,162</u>	<u>(490,162)</u>	<u>-</u>
Total Expenditures/Expenses	<u>1,566,478</u>	<u>(490,162)</u>	<u>1,076,316</u>
Net Change in Fund Balance/Net Position	<u>157,300</u>	<u>487,893</u>	<u>645,193</u>
Beginning fund balance/net position	<u>645,896</u>	<u>999,215</u>	<u>1,645,111</u>
Ending Fund Balance/Net Position	<u><u>\$ 803,196</u></u>	<u><u>\$ 1,487,108</u></u>	<u><u>\$ 2,290,304</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 FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Net change in fund balance - total governmental fund	\$ 157,300
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.	490,162
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>(2,269)</u>
Change in Net Position of Governmental Activities	<u>\$ 645,193</u>

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HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

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 that 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, 2016

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 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, 2016

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, time deposits and balances in statewide investment pools (TexSTAR) which are stated at cost, which approximates market value.

4. 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 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 fund balance sheet. The governmental fund reports 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

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

deferred inflow of resources 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, 2016

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, 2016, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity(Years)</u>
Certificates of deposit	\$ 493,420	0.71
TexSTAR	204,292	0.00
Total Fair Value	\$ 697,712	
Portfolio weighted average maturity		0.50

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, 2016, 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, 2016, 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 (PFIA), 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. J.P. Morgan Investment Management, Inc. (JPMIM) and Hilltop Securities Inc. (HTS) serve as co-administrators. JPMIM provides investment management services and FirstSouthwest, a division of HTS, provides participant service and marketing. Custodial, fund accounting, and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary, J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc.

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

TexSTAR is measured at amortized cost. TexStar's strategy is to seek preservation of principal, liquidity, and current income through in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to the investment pools. 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 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 (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 2016 assessment year, the District levied an ad valorem assessment of \$0.15 per \$100 of assessed valuation, resulting in an assessment of \$1,784,644. Revenue recognition for the 2016 assessment has been fully deferred to the 2017 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, 2016 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	\$ 968,227	\$ 490,162	\$ -	\$ 1,458,389
Total capital assets not being depreciated	<u>968,227</u>	<u>490,162</u>	<u>-</u>	<u>1,458,389</u>
Governmental Activities Capital Assets, Net	<u>\$ 968,227</u>	<u>\$ 490,162</u>	<u>\$ -</u>	<u>\$ 1,458,389</u>
		Net Investment in Capital Assets		<u>\$ 1,458,389</u>

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

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 that exceeded coverage amounts for the past three years.

NOTE 7 – 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 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.

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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, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance Positive (Negative)
Revenues				
Property assessment revenue	\$ 1,708,286	\$ 1,708,286	\$ 1,690,544	\$ (17,742)
Penalty and interest revenue	36,000	36,000	27,983	(8,017)
Investment earnings	500	500	5,251	4,751
Grants and donations	66,300	66,300	-	(66,300)
Total Revenues	<u>1,811,086</u>	<u>1,811,086</u>	<u>1,723,778</u>	<u>(87,308)</u>
Expenditures				
Service operations:				
Professional fees	51,500	51,500	36,510	14,990
Contracted services	173,705	173,705	183,282	(9,577)
Public safety and security	398,580	398,580	364,074	34,506
Community development	62,500	62,500	46,168	16,332
Environmental and urban design	125,000	125,000	200,581	(75,581)
Business and economic development	256,200	256,200	183,562	72,638
Other	31,780	31,780	62,139	(30,359)
Capital outlay	<u>1,220,856</u>	<u>1,220,856</u>	<u>490,162</u>	<u>730,694</u>
Total Expenditures	<u>2,320,121</u>	<u>2,320,121</u>	<u>1,566,478</u>	<u>753,643</u>
Net Change in Fund Balance	<u>\$ (509,035)</u>	<u>\$ (509,035)</u>	157,300	<u>\$ 666,335</u>
Beginning fund balance			<u>645,896</u>	
Ending Fund Balance			<u>\$ 803,196</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

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

TSI-2 GENERAL FUND EXPENDITURES

For the Year Ended December 31, 2016

	<u>General Fund Expenditures</u>
Purchased Services:	
Public safety and security	\$ 364,074
Community development	46,168
Environmental and urban design	200,581
Business and economic development	<u>183,562</u>
	<u>794,385</u>
Professional Fees:	
Auditing	6,550
Legal	<u>29,960</u>
	<u>36,510</u>
Contracted Services:	
Bookkeeping	8,700
Assessment collector	34,170
District administrator	17,556
Project management	<u>122,856</u>
	<u>183,282</u>
Administrative:	
Office supplies	6,010
Postage	485
Insurance	2,183
Other	<u>53,461</u>
	<u>62,139</u>
Capital Outlay	<u>490,162</u>
Total Expenditures	<u><u>\$ 1,566,478</u></u>

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

TSI-3 TEMPORARY INVESTMENTS

For the Year Ended December 31, 2016

General Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance
Certificate of deposit	4188617	0.40%	7/14/2017	\$ 248,172
Certificate of deposit	6515112	0.95%	11/23/2017	245,248
TexSTAR	2551011110	Varies	Daily	204,292
Total				\$ 697,712

HARRIS COUNTY IMPROVEMENT DISTRICT No. 9

TSI-4 ANALYSIS OF ASSESSMENT LEVIED AND RECEIVABLE

For the Year Ended December 31, 2016

		General			
Assessment Receivable - Beginning of Year		\$	1,455,466		
Adjusted to beginning balance			(15,007)		
Original assessment roll - 2016			1,784,644		
Total to be Accounted for			3,225,103		
Assessment Collections:					
Current year			170,174		
Prior years			1,411,740		
Total Collections			1,581,914		
Assessment Receivable, Net - End of Year		\$	1,643,189		
Assessment Receivable - By Year					
2016		\$	1,614,470		
2015			18,081		
2014			7,449		
2013			3,189		
Assessment Receivable, Net - End of Year		\$	1,643,189		
		2016	2015	2014	2013
Assessed					
Property Valuations		\$ 1,210,422,141	\$ 1,150,252,742	\$ 1,042,889,920	\$ 937,070,640
Total Assessment Rate					
(per \$100 Valuation)		\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15
Assessment Rolls		\$ 1,784,644	\$ 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	
	2016	2015	2016	2015
<u>General Fund Revenues</u>				
Property assessment	\$ 1,690,544	\$ 1,533,917	98.1 %	98.0 %
Penalty and interest revenue	27,983	28,583	1.6	1.8
Investment earnings	5,251	1,925	0.3	0.1
Total Revenues	1,723,778	1,564,425	100.0	100.0
<u>General Fund Expenditures</u>				
Professional fees	36,510	28,930	2.3	2.2
Contracted services	183,282	150,102	11.7	11.3
Public safety and security	364,074	313,939	23.2	24
Community development	46,168	-	2.9	-
Environmental and urban design	200,581	65,000	12.8	5
Business and economic development	183,562	142,714	11.7	11
Other	62,139	26,926	4.0	2.0
Capital outlay	490,162	606,032	31.3	45
Total Expenditures	1,566,478	1,333,643	100.0	100.0
Revenues Over Expenditures	\$ 157,300	\$ 230,782	9.1 %	14.8 %

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 9

TSI-8 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS

For the Year Ended December 31, 2016

District's Mailing Address:

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

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, 2016

Consultants	Date Hired	Fees	Title
Hawes Hill Calderon, LLP 8121 Broadway, Suite 199 Houston, TX 77061	08/24/07	\$ 336,369	Administrator
Equi Tax, Inc. P.O. Box 73109 Houston, TX 77273-3109	09/19/07	\$ 34,170	Assessment Collector
Bracewell & Giuliani, LLP 711 Louisiana Street, Suite 2300 Houston, TX 77339	07/24/13	\$ 29,960	Attorney
Roland, Fry & Warren, P. C. 1525 Lakeville Drive, Suite 121 Kingwood, TX 77339	02/13/14	\$ 3,600	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP 1235 North Loop West, Suite 600 Houston, TX 77025	06/12/14	\$ 13,203	Delinquent Assessment Attorney
Clark Condon & Associates 10401 Stella Link Road Houston, TX 77025	02/13/14	\$ 181,285	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	\$ 9,428	Bookkeeper
Belt Harris Pechacek, LLLP 3210 Bingle Rd., Suite 300 Houston, TX 77055	01/08/15	\$ 2,950	Auditor