

**HARRIS COUNTY
IMPROVEMENT DISTRICT NO. 1**

FINANCIAL REPORT

**Year Ended June 30, 2012
with Report of Independent Auditors**

**HARRIS COUNTY
IMPROVEMENT DISTRICT NO. 1**

FINANCIAL REPORT

Year Ended June 30, 2012

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Harris County Improvement District No. 1
Houston, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Improvement District No. 1 (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 each major fund of the Harris County Improvement District No. 1, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Harris County Improvement District No. 1

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 30 through 32 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.

The image shows a handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
October 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2012

As management of the Harris County Improvement District No. 1, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator regarding the financial position of the District. Other factors that are not included in the financial statements, such as increased tax base in the District's boundaries, should be considered in evaluating the condition of the District's overall financial position.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The District maintains three individual governmental funds. Information is presented separately in the *Governmental Fund Balance Sheet* and in the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances* for the General Fund, the Debt Service Fund, and the Capital Projects Fund, all of which are considered to be major funds.

Fund financial statements 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 on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it may be 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 Balances* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Notes to the Financial Statements

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

Government-wide Financial Analysis

In the government-wide statements, the difference between assets and liabilities is called net assets. As previously noted, net assets may serve over time as a useful indicator of a government's financial position. The District's net assets at June 30, 2012, were a negative \$1,850,140. The principal reason for this deficit is the District incurred long-term debt in 1999 to construct approximately \$2 million in infrastructure, which was conveyed to the City of Houston.

Net assets are categorized based on their availability to provide financial resources for the District. Net assets that are "Invested in capital assets, net of related debt" represent the District's investments in capital assets, less any debt used to acquire those assets that is still outstanding. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. "Restricted" net assets represent amounts that are restricted for future debt service requirements. "Unrestricted" net assets represent amounts available to meet the District's future obligations.

At year-end, the District had total assets of \$11,878,640. Of this amount, \$7,816,736 consisted of cash and investments and \$2,917,113 of capital assets. The change in capital assets consisted of depreciation of \$684,902 and additions for illuminated signs for \$42,368 for the 2012 fiscal year. Total liabilities were \$13,728,780 as of year-end. Of this amount, \$10,220,341 consisted of long-term debt and accrued interest. The balance of the liabilities consists of accounts payable and other accrued liabilities and expenses. A comparative summary of the District's overall financial position, as of June 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 8,961,527	\$ 6,734,837
Capital assets	2,917,113	3,559,647
Total Assets	<u>11,878,640</u>	<u>10,294,484</u>
Other liabilities	3,660,269	1,070,793
Long-term liabilities	10,068,511	10,706,199
Total Liabilities	<u>13,728,780</u>	<u>11,776,992</u>
Net assets:		
Invested in capital assets, net of related debt	2,917,113	3,559,647
Restricted	821,300	872,769
Unrestricted	(5,588,553)	(5,914,924)
Total Net Assets	<u>\$ (1,850,140)</u>	<u>\$ (1,482,508)</u>

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis - continued

The total net assets of the District decreased by \$367,632. A comparative summary of the District's statement of activities for the past two years is as follows:

	<u>2012</u>	<u>2011</u>
Revenues		
Program revenue		
Charges for services	\$ 513,343	\$ 551,990
Capital Grants	6,868,858	3,433,405
General revenues		
Property taxes	4,617,663	4,460,563
Unrestricted investment earnings	43,309	22,162
Miscellaneous		
Total Revenues	<u>12,043,173</u>	<u>8,468,120</u>
Expenses		
General and administrative	1,348,428	1,293,068
Traffic control	1,458,037	1,232,795
Maintenance and beautification	1,677,551	1,513,584
Planning and engineering	722,481	198,357
Marketing and communications	304,127	311,906
Interest on long-term debt	496,887	498,990
Economic development	44,403	50,563
Construction on behalf of the City of Houston	32,161	29,039
Transfers to other governments	6,326,730	3,930,000
Total Expenses	<u>12,410,805</u>	<u>9,058,302</u>
Increase in net assets	(367,632)	(590,182)
Net assets - beginning	<u>(1,482,508)</u>	<u>(892,326)</u>
Net assets - ending	<u>\$ (1,850,140)</u>	<u>\$ (1,482,508)</u>

Financial Analysis of the Government's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,990,314, a decrease of (\$302,226) in comparison with the prior year. This is due to the transfer of grant revenues. The unassigned portion of fund balance is \$4,799,268. This amount is available for spending at the government's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed (1) to fund authorized construction (\$215,134) and (2) to pay debt service of \$1,136,923.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Analysis of the Government's Funds - continued

The following is a summary of changes in fund balances for the prior two fiscal years:

	2012	Increase (Decrease)	2011	Increase (Decrease)	2010
General Fund	\$ 5,068,525	\$ (250,893)	\$ 5,319,418	\$ 173,715	\$ 5,145,703
Capital Projects Fund	(215,134)	(73,701)	(141,433)	(665,823)	524,390
Debt Service Fund	1,136,923	22,368	1,114,555	10,899	1,103,656
	<u>\$ 5,990,314</u>	<u>\$ (302,226)</u>	<u>\$ 6,292,540</u>	<u>\$ (481,209)</u>	<u>\$ 6,773,749</u>

The General Fund is the chief operating fund of the District. Fund balance in the General Fund decreased by (\$250,893) during the current fiscal year. This decrease is due to budget variances in property tax revenues and more spending in traffic operations than budgeted. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. At the end of the current fiscal year, the unassigned portion of fund balance of the General Fund was \$5,014,402, while expenditures for the year were \$4,867,296.

The Debt Service Fund has a total fund balance of \$1,136,923, all of which is restricted for the payment of debt service. The increase in fund balance during the current year in the Debt Service Fund was \$22,368. This was due to tax revenue receipts greater than budgeted.

The Capital Projects Fund has a total fund balance of (\$215,134), all of which is restricted for authorized construction. The net decrease in fund balance during the current year in the Capital Projects Fund of (\$73,701) is related to the transfer of grant funds to the Uptown Development Authority for transit related projects.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the year. The District anticipated an increase in the fund balance of \$0, while the actual was a decrease of (\$250,893). Variances between budget and actual were due primarily to budget variances in property tax revenues and operational spending.

Debt Administration

At June 30, 2012 and 2011, the District had total bonded debt outstanding as shown below:

Series	2012	2011
Series 1999	\$ 1,360,000	\$ 1,435,000
Series 2004	9,475,000	10,040,000
	<u>\$ 10,835,000</u>	<u>\$ 11,475,000</u>

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (*continued*)

Economic Factors and Next Year's Budgets and Rates

The District is a political subdivision of the State of Texas, created in 1987 by a special act of the 70th Texas Legislature. The District levies an ad valorem tax on real personal property within its boundaries. The tax rate for tax year 2011 was \$0.1435 per \$100 of assessed value. The tax rate will remain the same for tax year 2012, with expected revenues of approximately \$5.15 million.

Office Space

Uptown Houston is one of the largest business districts outside a historic core in the United States. It is the 14th largest business district in the United States: comparable to Denver and Cleveland. With over 23 million square feet of total office space, Uptown accounts for 15% of Houston's total "Class A" office space with almost 17 million square feet. This is second to only Downtown Houston. At the end of the fiscal year, class A office space was 90.5% leased.

Overall, 2012 ad valorem values for the office sector posted a healthy 14% increase compared to a 5% increase in the previous year. There are currently two Class A office buildings under construction in Uptown. The Redstone Group's office development on Post Oak Boulevard is a 22-story building with approximately 308,000 square feet. Skanska USA is constructing a 20-story office tower at 3009 Post Oak Boulevard with 302,000 square feet.

Retail

Uptown is synonymous with shopping and is known as a world-renowned center for retail. Ad valorem values for the retail sector increased 18% in 2012. Retail was 99% leased as of the fiscal year-end. This market maintained as The Galleria is now the fourth largest retail center in the United States. In early 2008, a 22-acre mixed-use development known as BLVD broke ground in the heart of Uptown. To date, approximately 70,000 square feet of retail and commercial construction has been completed. Tenants include the acclaimed RDG + Bar Annie restaurant, as well as Festari, New Balance and Pickles & Ice Cream. This year, Whole Foods Market was announced as part of the development, and construction is underway. The project is expected to open in the summer of 2014.

Hotels

Uptown currently has 31 first quality hotels in the area, offering more than 7,100 rooms for guests. Ad valorem values for this sector increased 14% in 2012.

The area's room revenue for 2011 is the highest in the area at \$243,925,651 (as compared to the Central Business District at \$98,558,473; Medical Center at \$103,270,767 and Greenspoint at \$117,122,633 for the same period). Uptown Houston also boasts one of the highest occupancy rates in the city at 79.4%.

Residential

Seven new high-rise residential towers have been built in Uptown in the past eight years. Single-family properties are holding values with some properties increasing slightly. Multi-family properties have increased approximately 8% this year. There has been a resurgence of residential activity in the area. As of June 2012, there were four residential projects under construction -- three luxury apartment developments and one Class A development -- adding approximately 1,130 residential units to the area. Uptown Houston is one of the most prestigious and desirable areas to live.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (*continued*)

The economic picture is promising in Uptown. In 2012, the ad valorem values were up 11% from the previous year. There are new projects underway and Uptown remains a viable district. The capital budget for the Authority is based on the increment value received from the City of Houston and new bond issues. While economic factors (property values, vacancy rates, future development, etc.) impact the size of debt issues, management takes a conservative approach to ensure that adequate resources are available to support the projects within the mandates of the Plan.

Requests for Information This financial report is designed to provide a general overview of the Harris County Improvement District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Harris County Improvement District No. 1, 1980 Post Oak Boulevard #1580, Houston, Texas 77056.

BASIC FINANCIAL STATEMENTS

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES

June 30, 2012

Assets	
Cash	\$ 7,816,736
Investments	
Property taxes receivable	137,774
Due from other governments	722,514
Other receivables	230,373
Prepaid expenses	54,130
Deferred charges	
Capital assets, net of depreciation	2,917,113
Less: Accumulated Depreciation	
Total Capital Assets	<u>2,917,113</u>
Total Assets	<u>11,878,640</u>
Liabilities	
Accounts payable and accrued expenses	420,067
Retainage payable	
Due to Uptown Development Authority	2,413,372
Deferred Revenues	
Accrued interest	151,830
Long-term debt:	
Due in less than one year	675,000
Due in more than one year	<u>10,068,511</u>
Total liabilities	<u>13,728,780</u>
Net Assets	
Invested in capital assets, net of related debt	2,917,113
Restricted for debt service	1,036,434
Restricted for capital projects	(215,134)
Unrestricted	<u>(5,588,553)</u>
Total net assets	<u>\$ (1,850,140)</u>

See notes to the financial statements.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Capital Grants</u>	
General and administrative	\$ 1,348,428	\$ 488,478	\$	\$ (859,950)
Traffic Control	1,458,037			(1,458,037)
Maintenance and beautification	1,677,551	24,865		(1,652,686)
Planning and engineering	722,481		542,125	(180,356)
Marketing and communication	304,127			(304,127)
Interest on long-term debt	496,887			(496,887)
Economic development	44,403			(44,403)
Houston	32,161		6,326,733	6,294,572
Total activities	<u>\$ 6,084,075</u>	<u>\$ 513,343</u>	<u>\$ 6,868,858</u>	<u>1,298,126</u>

General revenues:

Property taxes	4,617,663
Unrestricted investment earnings	43,309
Transfers to other governments	(6,326,730)
Total general revenues and transfers	<u>(1,665,758)</u>
Change in net assets	(367,632)
Net assets - beginning	(1,482,508)
Net assets - ending	<u>\$ (1,850,140)</u>

See notes to the financial statements.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 4,556,440	\$ 2,123,374	\$ 1,136,923	\$ 7,816,737
Taxes receivable	86,433		51,341	137,774
Due from other funds	308,900			308,900
Due from other governments	338,752	383,764		722,516
Due from others	230,373			230,373
Prepaid items	54,123			54,123
Total assets	<u>\$ 5,575,021</u>	<u>\$ 2,507,138</u>	<u>\$ 1,188,264</u>	<u>\$ 9,270,423</u>
 Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 420,067	\$	\$	\$ 420,067
Due to other funds		308,900		308,900
Deferred revenue	86,433		51,341	137,774
Due to other governments		2,413,372		2,413,372
Total liabilities	<u>506,496</u>	<u>2,722,272</u>	<u>51,341</u>	<u>3,280,109</u>
 Fund balances:				
Restricted for:				
Nonspendable	54,123			54,123
Restricted			1,136,923	1,136,923
Unassigned	5,014,402	(215,134)		4,799,268
Total fund balances	<u>5,068,525</u>	<u>(215,134)</u>	<u>1,136,923</u>	<u>5,990,314</u>
Total liabilities and fund balances	<u>\$ 5,575,021</u>	<u>\$ 2,507,138</u>	<u>\$ 1,188,264</u>	<u>\$ 9,270,423</u>

See notes to the financial statements.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2012

Total fund balance, governmental funds \$ 5,990,314

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 15,026,566	
Less accumulated depreciation	<u>(12,109,453)</u>	
Difference due to capital assets		2,917,113

Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.

Property taxes receivable	86,573	
Penalty and interest receivable	<u>51,201</u>	
Difference due to property taxes		137,774

Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the government wide statements. These are as follows:

Bonds payable and related discount	(10,719,727)	
Accrued interest	(151,830)	
Amounts owed to developers		
Compensated absences	<u>(23,784)</u>	
Difference due to long-term obligations		<u>(10,895,341)</u>

Net Assets of Governmental Activities in the Statement of Net Assets \$ (1,850,140)

See notes to the financial statements.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 3,518,941	\$	\$ 1,130,795	\$ 4,649,736
Intergovernmental	488,478	6,326,733		6,815,211
Charges for services				
Investment earnings	41,993	828	488	43,309
Other Income	566,990			566,990
Total revenues	<u>4,616,402</u>	<u>6,327,561</u>	<u>1,131,283</u>	<u>12,075,246</u>
Expenditures				
Current:				
Planning and engineering	722,481			722,481
Traffic control	775,634			775,634
Maintenance and beautification	1,677,551			1,677,551
General and administrative	1,345,600			1,345,600
Marketing and communications	301,627			301,627
Economic development	44,403			44,403
Debt Service:				
Principal			640,000	640,000
Interest and other charges			468,915	468,915
Capital Outlay		74,529		74,529
Total expenditures	<u>4,867,296</u>	<u>74,529</u>	<u>1,108,915</u>	<u>6,050,740</u>
Excess (deficiency) of revenues over expenditures	<u>(250,893)</u>	<u>6,253,032</u>	<u>22,368</u>	<u>6,024,507</u>
Other Financing Sources/(Uses):				
Transfers to Uptown Development Authority		<u>(6,326,733)</u>		<u>(6,326,733)</u>
Total other financing uses		<u>(6,326,733)</u>		<u>(6,326,733)</u>
Net change in fund balance	(250,893)	(73,701)	22,368	(302,226)
Fund balances - beginning of year	5,319,418	(141,433)	1,114,555	6,292,540
Fund balances - end of year	<u>\$ 5,068,525</u>	<u>\$ (215,134)</u>	<u>\$ 1,136,923</u>	<u>\$ 5,990,314</u>

See notes to the financial statements.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

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

For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds:		\$	(302,226)
Amounts reported for Governmental Activities in the Statement of Activities are different because:			
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. The difference is for property taxes and related penalties and interest.			(32,074)
Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense for the period.			
Capital outlay expenditures	\$	42,368	
Depreciation expense		<u>(684,902)</u>	
Difference due to capital assets			(642,534)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, at the government-wide level these transactions have the effect of increasing or decreasing long-term liabilities.			640,000
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These are as follows:			
Amortization of issuance costs			
Increase in liability for compensated absences		(2,827)	
Interest expense accrual		<u>(27,971)</u>	
			(30,798)
Change in net assets of governmental activities		<u>\$</u>	<u>(367,632)</u>

See notes to the financial statements.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

A. Summary of Significant Accounting Policies

The financial statements of Harris County Improvement District No. 1 (“the District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The following is a summary of the most significant policies.

Creation

Harris County Improvement District No. 1 (the “District”) was organized, created, and established pursuant to an act of the 70th Texas State Legislature, effective under the terms and provisions of Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution. The Board of Directors held its organizational meeting on July 18, 1987. The first bonds were sold on June 23, 1993. See Note F for additional information regarding significant legal provisions contained in the legislative act creating the District.

The District's primary activities include managing and financing improvement projects and/or services benefiting the District. These activities include maintenance and beautification of the area, traffic control and transportation projects, special events for the holiday seasons, general planning and engineering, area marketing, major capital improvements and general and administrative services.

Reporting Entity

The District is a political subdivision of the State of Texas, governed by an appointed board, and is considered a primary government. The GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from activities of the fiscal period. Interfund activity, if any, has been removed from these statements. The government wide statements consist of the *Statement of Net Assets* and the *Statement of Activities*.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants, who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported as general revenues.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

A. Summary of Significant Accounting Policies - continued

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. These fund financial statements are the *Governmental Funds- Balance Sheet* and the *Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances*

The District reports the following major governmental funds:

The *General Fund* is used to account for administrative operations of the District. The principal source of revenue is property taxes. Expenditures include all costs associated with the daily operations of the District.

The *Debt Service Fund* is used to account for the payment of interest and principal on all general long-term debt of the District. The primary source of revenue is provided by contract tax increment revenue.

The *Capital Projects Fund* is used to account for the expenditure of bond proceeds used in the construction of authorized improvement projects.

Measurement Focus and Basis of Accounting

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

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 if 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 are generally 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.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2012, an allowance for uncollectible property tax accounts was not considered necessary.

Prepaid Expenditures

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Summary of Significant Accounting Policies - continued

Capital Assets

Capital assets are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair value at the date of donation. Assets are depreciated over their remaining useful lives using the straight-line method.

<u>Asset</u>	<u>Estimated Useful Lives</u>
Machinery and Equipment	10 – 20 years

Fund Equity

Fund Equity / Restricted Assets

The District records reservations for all or portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unassigned fund balance indicates the portion of fund balance which is available for appropriation in future periods. The restricted fund balances for governmental funds represent the amount that has been identified for specific purposes.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

Restricted fund balance – Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Directors). To be reported as committed, amounts cannot be used for any other purposes unless the Authority takes the same highest level of action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Authority or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Summary of Significant Accounting Policies - continued

Fund Equity / Restricted Assets - continued

The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds. The District has nonspendable, restricted and unassigned fund balances as of June 30, 2012.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statements.

Compensated Absences

The District's employees earn vacation leave, which may either be taken or accumulated, up to certain amounts, until paid upon termination or retirement. The amounts are recorded as a liability on the *Statement of Net Assets*.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

B. Deposits and Investments

As of June 30, 2012, the District's cash was comprised of the following:

	Carrying Value
Demand deposits	\$ 524,451
Money market funds	7,292,286
	<u>\$ 7,816,737</u>

As of June 30, 2012, the District had no investments.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

B. Deposits and Investments - continued

Authorized Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The Authority's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

C. Capital Assets

A summary of changes in capital assets, for the year ended June 30, 2012, follows:

	Beginning Balance	Additions	Ending Balance
Capital assets being depreciated:			
Machinery and equipment	\$ 14,984,197	\$ 42,368	\$ 15,026,565
Less accumulated depreciation	(11,424,550)	(684,902)	(12,109,452)
Capital assets, net	\$ 3,559,647	\$ (642,534)	\$ 2,917,113

Depreciation was charged to functions of the District as follows:

Traffic control	\$ 682,402
Marketing and communications	2,500
	\$ 684,902

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

D. Long-Term Liabilities

As of June 30, 2012, the District's long-term liabilities were comprised of the following:

	<u>Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 10,835,000	\$ 675,000
Unamortized discounts	(35,009)	
Deferred difference on refunding	(80,264)	
Compensated absences	23,784	
	<u>\$ 10,743,511</u>	<u>\$ 675,000</u>

During the year, the District's long-term liabilities changed as follows:

	<u>Beginning Balance</u>	<u>Reductions</u>	<u>Ending Balance</u>
Unlimited tax bonds	\$ 11,475,000	\$ (640,000)	\$ 10,835,000
Unamortized discounts	(37,885)	2,876	(35,009)
Deferred difference on refunding	(111,873)	31,609	(80,264)
Compensated absences	20,957	2,827	23,784
	<u>\$ 11,346,199</u>	<u>\$ (602,688)</u>	<u>\$ 10,743,511</u>

Compensated Absences

Beginning Balance	\$ 20,957
Additions	2,827
Payments	
Ending Balance	<u>\$ 23,784</u>

Bonds payable consist of the following:

Series	Amount Outstanding	Original Issue	Interest Rate	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
Unlimited Tax Bonds, Series 1999	\$ 1,360,000	\$ 2,000,000	5.00%-7.00%	Sep 1, 2001-2023	Mar 1 Sep 1	Sep 1, 2009
Unlimited Tax Improvement and Refunding Bonds, Series 2004	<u>9,475,000</u>	13,635,000	2.00%-5.00%			
Total	<u>\$ 10,835,000</u>					

Payment of principal and interest on the bonds is to be provided from tax levies on properties within the District. As the bonds are unlimited tax bonds, no other funds of the District have been pledged for debt service requirements. Investment income realized by the Debt Service Fund, from investment of excess funds, will be used to pay outstanding bond principal and interest. The District is in compliance with all significant requirements and restrictions contained in its bond resolution.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

D. Long-Term Liabilities - continued

Annual debt service requirements to retire these outstanding bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 675,000	\$ 455,900	\$ 1,130,900
2014	705,000	433,123	1,138,123
2015	745,000	408,601	1,153,601
2016	785,000	381,216	1,166,216
2017	830,000	351,558	1,181,558
2018	875,000	318,615	1,193,615
2019	920,000	282,806	1,202,806
2020	965,000	243,968	1,208,968
2021	1,015,000	203,008	1,218,008
2022	1,060,000	158,816	1,218,816
2023	1,105,000	111,348	1,216,348
2024	1,155,000	54,553	1,209,553
	<u>\$ 10,835,000</u>	<u>\$ 3,403,511</u>	<u>\$ 14,238,511</u>

A summary of District Bonds authorized, but unissued at June 30, 2012 follows:

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Unissued</u>
Stimulation and development of transportation	05/30/92	\$ 75,000,000	\$ 59,915,000
Conservation and preservation of natural resources	05/30/92	25,000,000	22,005,000
Improvement projects payable from assessments	05/30/92	25,000,000	25,000,000
Improvement projects for economic diversification	11/20/93	25,000,000	25,000,000
		<u>\$150,000,000</u>	<u>\$131,920,000</u>

E. Property Taxes

On May 30, 1992, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations (maintenance tax) limited to \$0.25 per \$100 of assessed property valuation. The Harris County Appraisal District determines all property valuations and exempt status, if any. The District's bond resolution requires that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying costs incurred in assessment and collection of these taxes. Taxes levied for debt service and related costs are without limitation as to rate or amount.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

E. Property Taxes - continued

The District has contracted with the Harris County Tax Assessor/Collector for its tax levy and collection functions. A tax lien attaches to properties within the District on January 1 of each year when property valuations for use in levying taxes are established. Taxes levied are generally billed in October and are due upon receipt of the tax bill. Penalty and interest are charged if taxes are not paid by January 31. There is an additional 15% penalty charged on accounts delinquent after July 1, which generally is payable to the District's delinquent tax attorney.

Property taxes are collected based on rates adopted in the year of the levy. The District's fiscal year ended June 30, 2012, was financed through the 2011 tax levy. The District levied property taxes of \$0.1435 per \$100 of assessed value, of which \$0.1081 was allocated to maintenance and operations and \$0.0354 was allocated to debt service. The resulting tax levy was \$4,653,446 on the adjusted taxable value of \$3,242,814,206.

Taxes receivable, at June 30, 2012, consisted of the following:

Current year taxes receivable	\$ 12,588
Delinquent taxes receivable	<u>73,984</u>
	86,573
Penalty and interest receivable	<u>51,201</u>
Net property taxes receivable	<u><u>\$ 137,774</u></u>

F. Significant Legal Provisions of Legislative Act Creating District

As discussed in Note A above, the District has been established pursuant to an act of the Texas State Legislature. Significant legal provisions of this act are summarized below.

District Boundaries

The Act provides specifically for boundaries of the District, which includes the Uptown Houston area. The Uptown Houston area is also known as the Galleria-Post Oak area in Houston, Texas. The District may annex additional land area in accordance with Chapter 54 of the Texas Water Code.

Texas Commission on Environmental Quality Involvement

The Act provides that the Texas Commission on Environmental Quality is to appoint District Directors. The Directors are to serve staggered four-year terms. Additionally, the Texas Commission on Environmental Quality must approve the issuance of any bonded indebtedness for the purposes of providing water, sewer or drainage facilities within the District. No other District activities are subject to the jurisdiction of the Texas Commission on Environmental Quality.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

F. Significant Legal Provisions of Legislative Act Creating District - continued

General and Specific Powers of the District

The Act provides general powers to the District subject to general laws and regulations of the state applicable to conservation and reclamation districts created under Article XVI, Section 59 of the Texas Constitution and road districts and road utility districts created pursuant to Article III, Section 52, of the Texas Constitution, including those conferred by Chapter 54 of the Water Code and Chapter 13, Acts of the 68th legislature, 2nd Called Session, 1984 (Article 6674r-1, Vernon's Texas Civil Statutes).

Additional specific powers and duties are provided for in the act, which include the financing of improvement projects and/or services for the benefit of the District. Specific types of improvement projects are provided for in the act and include the acquisition of land in connection with the improvements. Eminent domain powers are specifically prohibited by the act. Improvement projects and/or services may be financed in whole or in part by the levy and collection of special assessments or property taxes on property in the area. The act also provides that maintenance taxes may be levied after voter approval.

The Act provides for the method by which the District must petition, provide notice and hold public hearings prior to the financing of the improvement projects and/or services.

The Act also provides for the issuance of voter-approved bonded indebtedness to finance improvement projects and/or services. Specific guidelines in the act provide for the repayment of bonds, which might be issued, as well as the use of bond proceeds, available security that can be pledged in issuing the bonds and refunding capabilities for outstanding bonds.

Director Bonds

The Act requires that each Director appointed execute a bond for \$10,000 payable to the District and conditioned on faithful performance of his or her duties. All bonds of the Directors shall be approved by the Board.

G. Operating Agreement - Uptown Development Authority

The District has entered into an operating agreement with Uptown Development Authority (the "Authority"). The Authority is a component unit of the City of Houston formed to carry on improvements in the Uptown Houston area. The governing boards of both the District and the Authority have common members. It is the intent of both governing boards to maintain separately controlled operating entities. The agreement calls for the District to perform services as and when requested by the Authority Board. The services may consist of general administrative support, project management and development, consultant management, and other services as may be deemed necessary. The District is the recipient of federal grants for pedestrian and intersection improvements within the District. Additionally, the Authority has an approved capital improvement plan which includes pedestrian and intersection improvements. These two entities will work in conjunction with the Authority providing the local match and the implementation of the project while the District will provide the grant funds (see Note K). Financial information regarding the Authority can be obtained from Uptown Development Authority, 1980 Post Oak Boulevard #1580, Houston, Texas 77056.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

G. Operating Agreement - Uptown Development Authority - continued

Financing Agreement - Uptown Development Authority

During the year, the District entered into a Finance Agreement with the Uptown Development Authority (The UDA) in which the Authority could borrow up to \$3.5 million, which was to be repaid by the Authority's fiscal year-end (June 30, 2012). During the 2012 fiscal year, the District advanced \$2,072,000 to the Authority and was repaid in full on/before July 1, 2012. This advance amount is included in Due From Other Governments. This agreement is to be reviewed and approved annually by both Boards of Directors

H. Pension Plan

For the benefit of its employees, the District provides discretionary contributions to a simplified employee pension plan, meeting the requirements of Internal Revenue Code Section 408(k). For the year ended June 30, 2012, the District contributed \$71,700 to the plan.

I. 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 personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for current year or the three prior years.

J. Tax Increment Reinvestment Zone

During the current and prior years, the District incurred certain planning expenditures related to the Tax Increment Reinvestment Zone No. 16 of the City of Houston (TIRZ). The TIRZ is located on property generally within the District's service area. During the year ended June 30, 2012, the District received \$455,215 from the TIRZ for reimbursement of administration costs, project management costs and traffic and mobility costs.

K. Federal Grants

The District is a recipient of two Federal grants for pedestrian and intersection improvements: Congestion Mitigation and Air Quality (CMAQ) 80/20 Grant and American Recovery and Reinvestment Act (ARRA) Grant (100 percent funded). During the fiscal year, the District received additional grant funds through an amendment. The total amendment was for \$6,135,969 of which \$3,503,356 was drawn to reimburse for previously allowed expenditures. The District passes the proceeds of these grants through to the Uptown Development Authority (UDA) and TIRZ. The TIRZ expends all funds for purposes of the grant, including a 20% local matching requirement under the CMAQ grant terms. All grant revenues are recognized by the District based on TIRZ spending and are then passed through to the TIRZ as a reimbursement for grant related spending.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS (continued)

K. Federal Grants - continued

A summary of grant activity through June 30, 2012, is shown below along with similar information for the total grant.

<u>Funding Source</u>	<u>Amounts</u>	
	<u>Actual through June 30, 2012</u>	<u>Total Grant</u>
Congestion Mitigation Air Quality Federal (CMAQ) Grant (80%)	\$ 7,855,335	\$ 15,124,994
American Recovery and Reinvestment Act Grant (100%)	4,158,368	5,000,000
	<u>\$ 12,013,703</u>	<u>\$ 20,124,994</u>

The CMAQ grant requires a 20 percent match, which is made by the UDA. For the cumulative period ending June 30, 2012, the UDA provided the required local match of \$1,265,347.

L. Subsequent Events

Management has evaluated subsequent events through October 31, 2012, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET TO ACTUAL**

June 30, 2012

	<u>Original</u>	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
Revenues				
Property taxes	\$ 3,614,063	\$ 3,614,063	\$ 3,518,941	\$ (95,122)
Intergovernmental	455,207	455,207	455,215	8
Shelter program	33,263	33,263	33,263	
Investment earnings	67,084	67,084	41,993	(25,091)
HGAC Grants	4,818,374	4,818,374	6,326,733	1,508,359
Miscellaneous			566,990	566,990
Total revenues	<u>8,987,991</u>	<u>8,987,991</u>	<u>10,943,135</u>	<u>1,955,144</u>
Expenditures				
Current:				
Planning and engineering	602,600	602,600	722,481	(119,881)
Traffic control	569,700	569,700	775,634	(205,934)
Maintenance and beautification	1,564,143	1,564,143	1,677,551	(113,408)
General and administrative	1,347,304	1,347,304	1,345,600	1,704
Marketing and communications	315,000	315,000	301,627	13,373
Economic development	70,000	70,000	44,403	25,597
Total expenditures	<u>4,468,747</u>	<u>4,468,747</u>	<u>4,867,296</u>	<u>(398,549)</u>
Excess (deficiency) of revenues over expenditures	<u>4,519,244</u>	<u>4,519,244</u>	<u>6,075,840</u>	<u>1,556,596</u>
Other Financing Sources (Uses)				
Transfers out	<u>(4,519,244)</u>	<u>(4,519,244)</u>	<u>(6,326,733)</u>	<u>(1,807,489)</u>
Total other financing sources (uses)	<u>(4,519,244)</u>	<u>(4,519,244)</u>	<u>(6,326,733)</u>	<u>(1,807,489)</u>
Net change in fund balance			(250,893)	(250,893)
Fund balances - beginning of year	<u>5,319,418</u>	<u>5,319,418</u>	<u>5,319,418</u>	
Fund balances - end of year	<u>\$ 5,319,418</u>	<u>\$ 5,319,418</u>	<u>\$ 5,068,525</u>	<u>\$ (250,893)</u>

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

**RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GENERAL FUND**

June 30, 2012

Net change in fund balance	\$ (463,630)
Less: HGAC grants	(3,292,655)
Plus transfers out	<u>3,930,000</u>
	173,715
Fund balance, beginning of year	<u>5,145,703</u>
Fund balance, end of year	<u><u>\$ 5,319,418</u></u>

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

Budgets and Budgetary Accounting

A non-appropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is considered a planning tool and does not constitute legal spending limit authority. The budget is prepared using the same method of accounting as for the financial reporting except that the General Fund budget includes federal grant revenues and the related transfers. For financial reporting purposes, the federal grant revenues and the related transfers are reported in the Capital Projects Fund. There were no amendments to the budget.