

**HARRIS COUNTY  
REDEVELOPMENT AUTHORITY**

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**February 28, 2014**



--oo0oo--

**Table of Contents**

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	5
<b>BASIC FINANCIAL STATEMENTS</b>	
Government – Wide Statements:	
Statement of Net Position – Governmental Activities	10
Statement of Activities – Governmental Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	14
Notes to Basic Financial Statements	15

--oo0oo--



# McGrath & Co., PLLC

Certified Public Accountants

P.O. Box 270148  
Houston, Texas 77277

Mark W. McGrath CPA  
mark@mcgrath-co.com

Colette M. Garcia CPA  
colette@mcgrath-co.com

## Independent Auditors' Report

Board of Directors  
Harris County Redevelopment Authority  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Redevelopment Authority, (a component unit of Harris County, Texas) as of and for the year ended February 28, 2014, which collectively comprise the basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### ***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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these basic 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 basic financial statements are free of 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 auditor's 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 to provide a basis for our audit opinions.

**Board of Directors  
Harris County Redevelopment Authority  
Harris County, Texas**

**Opinion**

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 Harris County Redevelopment Authority, as of February 28, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other-Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 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.

*WCG & Co, PC*

Houston, Texas  
November 20, 2014

## **Management's Discussion and Analysis**

*(This page intentionally left blank)*



**Harris County Redevelopment Authority  
(a Component Unit of Harris County , Texas)  
Management's Discussion and Analysis  
February 28, 2014**

**Using this Annual Report**

This section of Harris County Redevelopment Authority's (the "Authority") annual financial report presents management's discussion and analysis of the financial activities of the Authority for the fiscal year ended February 28, 2014. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

Since this report is for the Authority's initial year of operations, comparative data is not included. Financial reports for future years will include a comparative analysis of current year results to prior year data.

In addition to this discussion and analysis, this annual report consists of the Authority's basic financial statements and related notes. Since the Authority did not adopt an annual budget for its initial year of operations, a budgetary comparison schedule has not been presented.

**Government-Wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the Authority, both long-term and short-term. The Authority's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. The *Statement of Activities* reports how the Authority's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

**Fund Financial Statements**

The fund financial statements include the *Balance Sheet - Governmental Funds* and the *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds*. The focus of fund financial statements is on specific activities of the Authority rather than the Authority as a whole, reported using modified accrual accounting. These statements report on the Authority's use of available financial resources and the balances of available financial resources at the end of the year.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

**Financial Analysis of the Authority as a Whole**

In the government-wide statements, net position is the residual of assets less liabilities. The Authority's net position at February 28, 2014, was negative \$439,260. This amount is negative because the Authority's operations have been financed with borrowed funds.

**Harris County Redevelopment Authority**  
**(a Component Unit of Harris County , Texas)**  
**Management's Discussion and Analysis**  
**February 28, 2014**

A summary of the Authority's overall financial position, as of February 28, 2014 is as follows:

Current assets	\$ 243,952
Current liabilities	583,212
Long-term liabilities	100,000
Total liabilities	<u>683,212</u>
Net position	
Unrestricted	(439,260)
Total net assets	<u>\$ (439,260)</u>

The total net position of the Authority decreased by \$439,260. This is due to the fact that, as previously mentioned, the Authority does not have sufficient revenues to cover expenses. The following is a summary of the Authority's *Statement of Activities* for the current fiscal year:

Revenues	
Tax increment revenues	\$ 152,963
Investment income	5
Total revenues	<u>152,968</u>
Expenses	
Management fees	90,000
Professional fees	89,591
Consulting fees	260,219
Grants - 381 Agreements	124,282
Administrative	18,576
Homeless programs	9,560
Total expenses	<u>592,228</u>
Change in net position	(439,260)
Net position, beginning of year	-
Net position, end of year	<u>\$ (439,260)</u>

**Harris County Redevelopment Authority  
(a Component Unit of Harris County , Texas)  
Management's Discussion and Analysis  
February 28, 2014**

**Financial Analysis of the Authority's Funds**

*General Fund*

A summary of the General Fund's financial position as of February 28, 2014 and activities for the current fiscal year is follows:

Total assets	\$ 100,549
Total liabilities	\$ 439,810
Total fund balance	(339,261)
Total liabilities, deferred inflows and fund balance	<u>\$ 100,549</u>
Total revenues	\$ 5
Total expenditures	448,826
Revenues under expenditures	(448,821)
Net other financing sources	109,560
Net change in fund balance	<u>\$ (339,261)</u>

The Authority's activities were financed with the proceeds of a note payable in the amount of \$100,000.

*Springwoods 381 Fund*

This fund is used to account for activity related to the economic development agreement between the Authority and Harris County Improvement District 18 (see Note 8). The following is a summary of the financial position and activities for this fund:

Total assets	\$ 143,403
Total liabilities	\$ 143,403
Total deferred inflows	152,963
Total fund balance	(152,962)
Total deferred inflows and fund balance	<u>\$ 143,404</u>
Total revenues	\$ -
Total expenditures	(143,402)
Revenues under expenditures	(143,402)
Total other financing uses	(9,560)
Net change in fund balance	<u>\$ (152,962)</u>

***Harris County Redevelopment Authority  
(a Component Unit of Harris County , Texas)  
Management's Discussion and Analysis  
February 28, 2014***

**General Fund Budgetary Highlights**

The Board of Directors did not adopt an annual unappropriated budget for the General Fund.

**Currently Known Facts and Conditions**

On June 13, 2014, the Authority's board approved an operating agreement with the City of Houston Tax Increment Reinvestment Zone Number Twenty Four (TIRZ 24) and the City of Houston. That agreement established the Authority's responsibility to manage and account for the operations of the TIRZ 24.

On that same date, the TIRZ entered into an interlocal (participation) agreement with the City of Houston, the County and the Authority that specified the City and County's level of participation in economic development activities within the TIRZ. The interlocal agreement also established a 2014 base year for determining the change in taxable values of property located within the TIRZ. The Authority will receive from the City the portion (eighty percent) of the Tax Increment Collections attributable to the County Tax Increment, plus interest. Five percent of the increment is to be retained for operating and administrative expenses, sixty-five percent for economic development efforts; as outlined in the TIRZ Board's approved plan. Ten percent of the increment is to be received by the Authority and remitted to the Harris County Community Services Department for homeless initiatives and administration; five percent each.

Also on June 13, 2014, the Authority made application and received approval of a \$450,000 non-revolving line of credit loan from the Harris County Housing Finance Corporation to provide funds for the payment of liabilities in the amount of \$439,810, which have been accrued on behalf of the Authority and the TIRZ.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to Harris County Community Services Department, 8410 Lantern Point Drive, Houston, Texas, 77054

## **Basic Financial Statements**

**Harris County Redevelopment Authority**  
**(a Component Unit of Harris County, Texas)**  
**Statement of Net Position - Governmental Activities**  
**February 28, 2014**

<b>Assets</b>	
Cash	\$ 90,989
Taxes increment receivable	152,963
Total Assets	<u>243,952</u>
<b>Liabilities</b>	
Accounts payable	439,810
Due to other governments	143,402
Notes payable	
Due after one year	100,000
Total Liabilities	<u>683,212</u>
<b>Net Position</b>	
Unrestricted	(439,260)
Total Net Position	<u>\$ (439,260)</u>

See notes to basic financial statements.

**Harris County Redevelopment Authority**  
**(a Component Unit of Harris County, Texas)**  
**Statement of Activities - Governmental Activities**  
**For the Year Ended February 28, 2014**

	<u>Total</u>	<u>General Government</u>	<u>Economic &amp; Community Development</u>
<b>Expenses</b>			
TIRZ Management fees	\$ 90,000	\$ -	\$ 90,000
Professional fees	89,591	89,591	
Consulting fees	260,219		260,219
Grants	124,282		124,282
Administrative	18,576	18,576	
Homeless programs - transfer to Harris County	9,560		9,560
Total Expenses	<u>592,228</u>	<u>108,167</u>	<u>484,061</u>
<b>General Revenues</b>			
Tax increments	152,963		
Investment earnings	5		
Total general revenues	<u>152,968</u>		
Change in net position	(439,260)		
<b>Net Position</b>			
Beginning of the year	-		
End of the year	<u>\$ (439,260)</u>		

See notes to basic financial statements.

**Harris County Redevelopment Authority**  
**(a Component Unit of Harris County, Texas)**  
**Balance Sheet - Governmental Funds**  
**February 28, 2014**

	General Fund	Springwoods 381	Total
<b>Assets</b>			
Cash	\$ 90,989	\$ -	\$ 90,989
Tax increment receivable		152,963	152,963
Internal balances	9,560	(9,560)	
Total Assets	<u>\$ 100,549</u>	<u>\$ 143,403</u>	<u>\$ 243,952</u>
<b>Liabilities</b>			
Accounts payable	\$ 439,810	\$ -	\$ 439,810
Due to other governments		143,403	143,403
Total Liabilities	<u>439,810</u>	<u>143,403</u>	<u>583,213</u>
<b>Deferred Inflows of Resources</b>			
Deferred property tax increment		152,963	152,963
<b>Fund Balance</b>			
Unassigned	(339,261)		(339,261)
Total Fund Balances	<u>(339,261)</u>	<u>(152,962)</u>	<u>(492,223)</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 100,549</u>	<u>\$ 143,404</u>	<u>\$ 243,953</u>

**Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position**

Total fund balance, governmental funds	\$ (492,223)
Amounts borrowed by the Authority under a note payable provide financial resources in the governmental funds, but are reported as a liability in the government wide statement.	(100,000)
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for tax increment revenues.	152,963
Total net position - governmental activities	<u>\$ (439,260)</u>

See notes to basic financial statements.



**Harris County Redevelopment Authority**  
**(a Component Unity of Harris County, Texas)**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds**  
**For the Year Ended February 28, 2014**

	General Fund	Springwoods 381	Total
<b>Revenues</b>			
Investment earnings	\$ 5	\$ -	\$ 5
Total Revenues	<u>5</u>	<u>-</u>	<u>5</u>
<b>Expenditures</b>			
<b>Current</b>			
General government	98,607	9,560	108,167
Economic development	350,219	124,282	474,501
Community services - homeless programs		9,560	9,560
Total Expenditures	<u>448,826</u>	<u>143,402</u>	<u>592,228</u>
Revenues under expenditures	(448,821)	(143,402)	(592,223)
<b>Other Financing Sources</b>			
Proceeds from note payable	100,000		100,000
Internal transfers	9,560	(9,560)	
Net change in fund balances	(339,261)	(152,962)	(492,223)
<b>Fund Balances</b>			
Beginning of the year	-	-	-
End of the year	<u>\$ (339,261)</u>	<u>\$ (152,962)</u>	<u>\$ (492,223)</u>

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
of the Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental fund - General Fund	\$ (492,223)
Tax increment revenues not collected by the Authority within sixty days of fiscal year end are not considered available to pay current expenditures and are, therefore, recorded as deferred inflows of resources in the governmental funds.	152,963
Amounts borrowed by the Authority under a note payable provide financial resources in the governmental funds, but are reported as a liability in the government wide	(100,000)
Change in net position of governmental activities	<u>\$ (439,260)</u>

See notes to basic financial statements.

*(This page intentionally left blank)*

**Harris County Redevelopment Authority**  
**(a Component Unit of Harris County, Texas)**  
**Notes to Basic Financial Statements**  
**February 28, 2014**

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Harris County Redevelopment Authority (the “Authority”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

***Creation and Purpose***

The Authority is a nonprofit public corporation established on November 29, 2012, with the approval of the Commissioners Court of Harris County, Texas, pursuant to Subchapter D of Chapter 31 of the Texas Transportation Act. The Authority was established to aid, assist and act on behalf of Harris County in the performance of its governmental functions. The Authority is specifically tasked with (1) promoting, developing, encouraging and maintaining employment, commerce and economic development programs on behalf of the County and (2) the administration and implementation of Tax Increment Reinvestment Zones (TIRZ) and Section 381 economic development grants within Harris County.

Currently, the Authority is responsible for a 381 agreement with Harris County Improvement District 18 (HC ID 18) for the master planned community development known as Springwoods Village in north Harris County and has incurred costs related to the creation of the City of Houston Tax Increment Reinvestment Zone 24 (TIRZ 24) which was created to facilitate economic development in eastern downtown and the Reliant Park area. See Note 8 for additional information.

The Authority has contracted with consultants to provide services to operate and administer the affairs of the Authority. The Authority has no employees, related payroll or pension costs. The Board of Directors held its first meeting on December 12, 2012.

***Reporting Entity***

The Authority is a public corporation incorporated in the State of Texas and governed by an appointed seven-member board. The Governmental Accounting Standards Board has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. Under these criteria, the Authority is considered a component unit of Harris County, Texas. The Authority does not have any component units.

***Government-Wide Financial Statements***

Government-wide financial statements display information about the Authority as a whole. These statements focus on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

**Harris County Redevelopment Authority  
(a Component Unit of Harris County, Texas)  
Notes to Basic Financial Statements  
February 28, 2014**

**Note 1 – Summary of Significant Accounting Policies (continued)**

***Fund Financial Statements***

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. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has two governmental funds, which are both considered major funds.

The following is a description of the funds used by the Authority:

- The *General Fund* is used to account for the general operations of the Authority and all other financial transactions not reported in other funds. During the current fiscal year, the Authority’s principal financial resource was proceeds from a note payable. Expenditures include costs associated with the creation and operation of the Authority and TIRZ 24.
- The *Springwoods 381 Fund* is a special revenue fund used to account for the Authority’s Section 381 economic development agreement with HC ID 18.

***Measurement Focus and Basis of Accounting***

The government-wide financial statements use 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 the related cash flows. Tax increment revenues are recognized as revenue in the year in which the taxes are collected by Harris County.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the Authority considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property tax increments and investment income. Tax increments receivable at the end of the fiscal year are treated as deferred inflows of resources because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

***Budgets and Budgetary Accounting***

The Board of Directors did not adopt a budget for the General Fund for the current fiscal year.

***Use of Restricted Resources***

When both restricted and unrestricted resources are available for use, the Authority uses restricted resources first, then unrestricted resources as they are needed.

**Harris County Redevelopment Authority  
(a Component Unit of Harris County, Texas)  
Notes to Basic Financial Statements  
February 28, 2014**

**Note 1 – Summary of Significant Accounting Policies (continued)**

***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 February 28, 2014, an allowance for uncollectible accounts was not considered necessary.

***Deferred Inflows and Outflows of Resources***

A deferred outflow is the consumption of resources in one period that is applicable to a future period, while a deferred inflow is the acquisition of resources in one period that is applicable to a future period

***Net Position***

Accounting standards establishes the following three components of net position:

Net investment in capital assets - represents the Authority's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. The Authority does not have any capital assets and, accordingly, does not report net investment in capital assets

Restricted - consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The Authority does not have any restricted resources.

Unrestricted - resources not included in the other components.

***Fund Balances – Governmental Funds***

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The Authority does not have any nonspendable fund balances.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The Authority does not have any restricted fund balances.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the Authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Authority does not have any committed fund balances.

**Harris County Redevelopment Authority**  
**(a Component Unit of Harris County, Texas)**  
**Notes to Basic Financial Statements**  
**February 28, 2014**

**Note 1 – Summary of Significant Accounting Policies – Fund Balances (continued)**

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Authority has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

***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 reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

**Note 2 – Deposits and Investments**

***Deposit Custodial Credit Risk***

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the Authority's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral.

**Harris County Redevelopment Authority**  
**(a Component Unit of Harris County, Texas)**  
**Notes to Basic Financial Statements**  
**February 28, 2014**

**Note 2 – Deposits and Investments (continued)**

**Investments**

The Authority 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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (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.

**Note 3 – Tax Increment Receivable**

Tax increment receivable as of February 28, 2014, consists of the tax increment due from Harris County pursuant to the 381 agreement with HC ID 18.

**Note 4 - Internal Balances/Transfers**

Amounts reported as due to/from between funds are considered temporary loans needed for normal operations and will be repaid during the following fiscal year. During the year, the Authority recorded a transfer of \$9,200 for the portion of the tax increment from HC ID 18 designated for the Authority's costs.

**Note 5 – Due to Other Governments**

Due to other governments consists of the following:

<u>Payable To</u>	<u>Amount</u>
Harris County Improvement District 18	\$ 124,282
Harris County - Community Services Department	19,120
Total	<u>\$ 143,402</u>

**Harris County Redevelopment Authority  
(a Component Unit of Harris County, Texas)  
Notes to Basic Financial Statements  
February 28, 2014**

**Note 6 – Note Payable**

On March 6, 2013, the Authority executed a note payable in the amount of \$100,000 with Harris County to provide funds for the payment of administrative expenses. The note does not accrue interest and is due in full on February 29, 2016.

**Note 7 – Risk Management**

The Authority 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 Authority was self-insured during its initial fiscal year.

**Note 8 – Economic Development Agreements**

***Harris County Improvement District No. 18 (AKA Springwoods 381)***

On December 12, 2012, The Authority entered into a 30 year economic development agreement with Harris County and the HC ID 18 whereby the County will rebate to the Authority eighty percent of the County's tax revenue generated as a result of new development within the HC ID 18. As part of the agreement, the Authority will retain five percent of the tax revenue generated for operating and administrative expenses and is obligated to remit the remainder of the revenues to HC ID 18 and the Harris County Community Services Department; sixty-five percent and ten percent respectively.

It is anticipated that the Authority will collect and disburse to the HC ID 18 up to \$82,000,000, plus interest in rebates over the life of the agreement. On an annual basis, HC ID 18 is required to provide a schedule of infrastructure costs paid and the amount of interest that has accrued on those payments. As of February 28, 2014, reimbursable costs incurred by HC ID 18 total \$12,721,057, which includes \$12,591,756 and \$129,301 in principal and interest, respectively. The Authority and County's obligations are limited to only the increased tax revenues and do not extend beyond the life of the agreement.

***Tax Increment Reinvestment Zone No 24***

The City of Houston approved the creation of TIRZ 24 on December 18, 2012. Pursuant to an agreement between the City and the County, TIRZ 24 is controlled and operated by the County. The TIRZ 24 board of directors is appointed by Harris County Commissioners Court and is substantively the same as the Authority's board of directors. During the current year, costs associated with the creation of TIRZ 24 were recorded in the Authority's General Fund. When applicable, a special revenue fund will be used to account for tax increment revenues.



**Harris County Redevelopment Authority  
(a Component Unit of Harris County, Texas)  
Notes to Basic Financial Statements  
February 28, 2014**

**Note 9 – Subsequent Events**

***Non-revolving Line of Credit***

On June 13, 2014, the Authority obtained a \$450,000 non-revolving line of credit from Harris County Housing Finance Corporation to finance organizational costs of the Authority and TIRZ 24 and initial annual operating costs of the Authority. The loan carries interest at 6% per year, with interest due annually on December 1. The loan matures on June 13, 2019, at which time all principal amounts borrowed must be repaid. The Authority pledged administrative fees to be received pursuant to all existing and future 381 and TIRZ agreements as collateral for the line of credit.

***TIRZ 24 Operating and Interlocal Agreements***

On June 13, 2014, the Authority's board approved an operating (tripartite) agreement with TIRZ 24 and the City of Houston. That agreement established the Authority's responsibility to manage and account for the operations of TIRZ 24.

On that same date, the TIRZ 24 entered into an interlocal (participation) agreement with the City of Houston, the County and the Authority that specified the City and County's level of participation in economic development activities within TIRZ 24. The interlocal agreement also established a 2014 base year for determining the change in taxable values of property located within TIRZ 24. The Authority will receive from the City the portion (eighty percent) of the tax increment collections attributable to the county tax increment, plus interest. Five percent of the increment is to be retained for operating and administrative expenses, sixty-five percent for economic development efforts; as outlined in TIRZ 24's approved "plan". Ten percent of the increment is to be received by the Authority and remitted to the Harris County Community Services Department for homeless initiatives and administration; 5% each.