

**HARRIS COUNTY
REDEVELOPMENT AUTHORITY**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

February 28, 2017

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	5
BASIC FINANCIAL STATEMENTS	
Government – Wide Statements:	
Statement of Net Position – Governmental Activities	12
Statement of Activities – Governmental Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Notes to Basic Financial Statements	17
REQUIRED SUPPLEMENTARY INFORMATION	
Required Supplementary Information Budgetary Comparison Schedule – All Funds – Cash Basis	28
Notes to Required Supplementary Information	29

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Independent Auditor's 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, 2017, 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
(a Component Unit of Harris County, Texas)
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, 2017, 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 and budgetary comparison information 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.

McGrath & Co, P.C.

Houston, Texas
November 2, 2017

Management's Discussion and Analysis

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***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2017***

Using this Annual Report

Within this section of the financial report of Harris County Redevelopment Authority (the "Authority"), the Authority's Board of Directors provides a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended February 28, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The Authority's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the Authority's budget; and

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.

Accounting standards establish three components of net position. The net investment in capital assets component represents the Authority's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. 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.

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2017

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

A comparative summary of the Authority's overall financial position, as of February 28, 2017 and February 29, 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Current assets	\$ 8,188,206	\$ 6,588,345
Current liabilities	7,390,623	5,693,136
Long-term liabilities	<u>450,000</u>	<u>450,000</u>
Total liabilities	<u>7,390,623</u>	<u>6,143,136</u>
Net position		
Unrestricted	797,583	445,209
Total Net Position	<u>\$ 797,583</u>	<u>\$ 445,209</u>

The total net position of the Authority increased by \$352,374. A comparative summary of the Authority's *Statement of Activities* for the past two years is as follows:

	<u>2017</u>	<u>2016</u>
Revenues		
Tax increment revenues	\$ 5,461,783	\$ 4,553,469
Investment income	<u>1,766</u>	<u>1,766</u>
Total revenues	<u>5,463,549</u>	<u>4,553,469</u>
Expenses		
General Government	543,610	373,433
Community Development	<u>4,567,565</u>	<u>3,828,790</u>
Total expenses	<u>5,111,175</u>	<u>4,202,223</u>
Change in net position before other item	352,374	351,246
Other item		
TIRZ No. 24 reimbursement	<u>575,740</u>	<u>575,740</u>
Change in net position	352,374	926,986
Net position, beginning of year	<u>445,209</u>	<u>(481,777)</u>
Net position, end of year	<u>\$ 797,583</u>	<u>\$ 445,209</u>

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2017***

Financial Analysis of the Authority's Funds

General Fund

The Authority's General Fund balance, as of February 28, 2017 was \$239,992. The following is a comparative summary of the financial position for the General Fund as of February 28, 2017 and February 29, 2016 is follows:

	2017	2016
Total assets	<u>\$ 3,588,618</u>	<u>\$ 2,589,680</u>
Total liabilities	\$ 2,792,020	\$ 1,594,471
Total deferred inflows	556,606	287,068
Total fund balance	<u>239,992</u>	<u>708,141</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 3,588,618</u>	<u>\$ 2,589,680</u>

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2017	2016
Total revenues	\$ 287,849	\$ -
Total expenditures	<u>512,572</u>	<u>202,472</u>
Revenues under expenditures	(224,723)	(202,472)
Other changes in fund balance	(243,426)	842,390
Net change in fund balance	<u>\$ (468,149)</u>	<u>\$ 639,918</u>

Springwoods 381 Fund

This fund is used to account for activity related to economic development within the County; specifically, an agreement between the Authority and Harris County Improvement District 18 (see note 8). The intent of the agreement is increasing job creation and additional funding sources for public infrastructure improvements within the boundaries associated with the agreement.

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2017***

The following is a comparative summary of the financial position of the Springwoods 381 Fund as of February 28, 2017 and February 29, 2016:

	2017	2016
Total assets	<u>\$ 4,599,588</u>	<u>\$ 3,998,665</u>
Total liabilities	\$ 4,598,603	\$ 3,998,665
Total deferred inflows	4,905,177	4,265,243
Total fund balance	<u>(4,904,192)</u>	<u>(4,265,243)</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 4,599,588</u>	<u>\$ 3,998,665</u>

The following is a comparative summary of activities for the Springwoods 381 Fund for the last two years:

	2017	2016
Total revenues	\$ 4,266,228	\$ 1,889,540
Total expenditures	4,598,603	3,999,751
Revenues under expenditures	(332,375)	(2,110,211)
Other changes in fund balance	(306,574)	(266,650)
Net change in fund balance	<u>\$ (638,949)</u>	<u>\$ (2,376,861)</u>

Fund Budgetary Highlights

The Board of Directors adopts a combined annual unappropriated, cash basis budget for the General Fund and Springwoods 381 Fund for each fiscal year.

Since the Authority's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$272,761 less than budgeted. The *Budgetary Comparison Schedule* on page 28 of this report provides variance information per financial statement line item.

Currently Known Facts and Conditions

On December 12, 2012, The Authority entered into a 40-year Interlocal Agreement pursuant Texas Local Government Code, Section .381 (the "381 Agreement") with Harris County and the Harris County Improvement District No. 18 (the "District"), 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 District. As part of the 381 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 the District 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 District up to \$82,000,000, plus interest in rebates over the life of the 381 Agreement. The

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management’s Discussion and Analysis
February 28, 2017***

Authority and County’s obligations are limited to only the increased tax revenues collected and does not extend beyond the life of the 381 Agreement.

On December 18, 2012, the City of Houston’s ordinance no. 2012-1048 formally established the creation of the Greater Houston Tax Increment Reinvestment Zone No. 24 (“TIRZ 24”) pursuant Chapter 311 of the Texas Tax Code.

At its June 13, 2014 board meeting, the Authority approved an Interlocal Participation Agreement (“Participation Agreement”) with the City of Houston, the County and TIRZ 24 that specified the City and County’s level of participation in development activities within the boundaries of TIRZ 24. Subsequently the City approved the agreement having an effective date of July 22, 2014.

The Participation Agreement established a 2014 base year for determining the change in taxable values of property located within TIRZ 24. The Authority will receive eighty percent (80%) of the Tax Increment Collections attributable to the County Tax Increment, plus interest. Five percent (5%) of the increment is to be retained by the Authority for its operating and administrative expenses, sixty-five percent (65%) is remitted to TIRZ 24 for development efforts, as outlined in the TIRZ 24 Board’s approved “plan”. Ten percent (10%) 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 (5%) each. Tax Increment payments were received in May 2016.

On June 13, 2014, the Authority’s board approved an Interlocal Operating Agreement (“Tripartite Agreement”) with TIRZ 24 and the City of Houston. The Tripartite Agreement established the Authority’s responsibility to manage and account for the operation of TIRZ 24.

Next Year’s Budget – Cash Basis

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the Authority, most notably projected revenues and expenditures related to property tax increments. A comparison of next year’s combined budget to current year actual amounts for the General Fund and Springwoods 381 Fund is as follows:

	<u>2017 Actual</u>	<u>2018 Budget</u>
Total revenues	\$ 5,255,704	\$ 7,089,509
Total expenditures	<u>(4,463,118)</u>	<u>(6,777,368)</u>
Revenues over expenditures	792,586	312,141
Other changes in fund balance	<u>(568,567)</u>	<u></u>
Net change in cash	224,019	312,141
Cash on hand at beginning of year	<u>90,444</u>	<u>314,463</u>
Cash on hand at end of year	<u><u>\$ 314,463</u></u>	<u><u>\$ 626,604</u></u>

*Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2017*

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 request 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, 2017*

Assets

Cash	\$	112,978
Investments		201,485
Taxes increment receivable		7,873,743
Total Assets		<u>8,188,206</u>

Liabilities

Accounts payable		8,989
Due to other governments		7,381,634
Total Liabilities		<u>7,390,623</u>

Net Position

Unrestricted		797,583
Total Net Position	\$	<u>797,583</u>

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Statement of Activities - Governmental Activities
For the Year Ended February 28, 2017

	<u>Total</u>	<u>General Government</u>	<u>Economic & Community Development</u>
Expenses			
Management fees	\$ 90,000	\$ -	\$ 90,000
Professional fees	34,301	34,301	
Grants	3,985,456		3,985,456
Administrative	497,399	497,399	
Homeless programs - transfer to Harris County	492,109		492,109
Interest	11,910	11,910	
Total Expenses	<u>5,111,175</u>	<u>543,610</u>	<u>4,567,565</u>
General Revenues			
Tax increments	5,461,783		
Investment earnings	1,766		
Total General Revenues	<u>5,463,549</u>		
Revenues over expenses	352,374		
Net Position			
Beginning of the year	445,209		
End of the year	<u>\$ 797,583</u>		

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Balance Sheet - Governmental Funds
February 28, 2017

	General Fund	Springwoods 381	Total
Assets			
Cash	\$ 112,697	\$ 281	\$ 112,978
Investments	200,781	704	201,485
Tax increment receivable	2,968,566	4,905,177	7,873,743
Internal balances	306,574	(306,574)	
Total Assets	<u>\$ 3,588,618</u>	<u>\$ 4,599,588</u>	<u>\$ 8,188,206</u>
Liabilities			
Accounts payable	\$ 8,989	\$ -	\$ 8,989
Due to other governments	2,783,031	4,598,603	7,381,634
Total Liabilities	<u>2,792,020</u>	<u>4,598,603</u>	<u>7,390,623</u>
Deferred Inflows of Resources			
Deferred property tax increment	<u>556,606</u>	<u>4,905,177</u>	<u>5,461,783</u>
Fund Balance			
Unassigned	<u>239,992</u>	<u>(4,904,192)</u>	<u>(4,664,200)</u>
Total Fund Balances	<u>239,992</u>	<u>(4,904,192)</u>	<u>(4,664,200)</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 3,588,618</u>	<u>\$ 4,599,588</u>	<u>\$ 8,188,206</u>

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

Total fund balance - governmental funds	\$ (4,664,200)
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 and TIRZ payments to the Authority.	5,461,783
Total net position - governmental activities	<u>\$ 797,583</u>

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended February 28, 2017

	General Fund	Springwoods 381	Total
Revenues			
Taxes increment	\$ 287,068	\$ 4,265,243	\$ 4,552,311
Investment earnings	781	985	1,766
Total Revenues	<u>287,849</u>	<u>4,266,228</u>	<u>4,554,077</u>
Expenditures			
Current			
General government	237,036	306,574	543,610
Economic development	90,000	3,985,455	4,075,455
Community services - homeless programs	185,536	306,574	492,110
Total Expenditures	<u>512,572</u>	<u>4,598,603</u>	<u>5,111,175</u>
Revenues under expenditures	(224,723)	(332,375)	(557,098)
Other Financing Sources/(Uses)			
Repayment of loan	(550,000)		(550,000)
Internal transfers	306,574	(306,574)	
Net change in fund balances	(468,149)	(638,949)	(1,107,098)
Fund Balances			
Beginning of the year	708,141	(4,265,243)	(3,557,102)
End of the year	<u>\$ 239,992</u>	<u>\$ (4,904,192)</u>	<u>\$ (4,664,200)</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	\$ (1,107,098)
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.	5,461,783
The repayment of a loans and notes payable use financial resources in the funds, but reduce the reported liabilities in the government wide statements.	550,000
Revenues recognized in the current fiscal year that were deferred inflows in the previous period.	(4,552,311)
Change in Net Position	<u>\$ 352,374</u>

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Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 28, 2017

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 and encouraging community development and redevelopment, maintaining employment, and commerce on behalf of the County and 2) the administration and implementation of the Greater Houston Tax Increment Reinvestment Zone No. 24 (“TIRZ 24”) and Chapter 381 Agreements 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 TIRZ 24 which was created to facilitate community 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 TIRZ 24 and the Authority. The Authority has no employees, related payroll or pension costs. The Board of Directors held its first meeting on December 12, 2012 and has held at least one meeting each year since its inception.

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, 2017

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. Currently, the Authority uses two funds: the General Fund and the Springwoods 381 Fund, 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 the financial transactions not reported in other funds. During the current fiscal year, the General Fund's principal financial resource was an internal transfer from the Springwoods 381 Fund. Expenditures include costs associated with the 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 Agreement with HC ID 18. This fund's primary financial resources is from tax increments.

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. Property taxes are recognized as revenue in the year for which they are levied.

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 government 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.

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, 2017*

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. As of February 28, 2017, an allowance for uncollectible accounts was not considered necessary.

Deferred Inflows and Outflows of Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, tax increments receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

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.

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 28, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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.

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 and deficit balances in other funds.

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.

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 28, 2017

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. The Authority's written investment policy establishes additional requirements for collateralization of deposits. All deposits of the Authority were held in a direct deposit account (DDA) during the fiscal year and were fully secured by federal deposit insurance or collateralized as per its pledged collateral agreement.

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.

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

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 28, 2017

Note 2 – Deposits and Investments (continued)

Investments

As of February 28, 2017, the Authority’s investments consist of the following:

<u>Fund</u>	<u>Type</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
General	TexSTAR	\$ 100,295	AAAm	48 days
	Texas CLASS	100,486	AAAm	69 days
		<u>200,781</u>		
Springwoods 381	Texas CLASS	<u>704</u>	AAAm	69 days
Total		<u><u>\$ 201,485</u></u>		

TexSTAR

The Authority participates in Texas Short Term Asset Reserve fund (TexSTAR) which is managed by First Southwest, a division of Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. First Southwest provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

The Authority’s investment in TexSTAR is reported at fair value because TexSTAR uses fair value to report investments. The Authority implemented GASB Statement No. 72, “Fair Value Measurement and Application,” during the current fiscal year. This statement establishes a hierarchy of inputs used to measure fair value as follows: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The Authority’s investment in TexSTAR is measured using published fair value per share (level 1 inputs).

Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Texas CLASS

The Authority also participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administer and Wells Fargo Bank as the custodian.

*Harris County Redevelopment Authority
 (A Component Unit of Harris County, Texas)
 Notes to Basic Financial Statements
 February 28, 2017*

Note 2 – Deposits and Investments (continued)

Texas CLASS

The Authority’s investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). The Authority implemented GASB Statement No. 72, “Fair Value Measurement and Application,” during the current fiscal year. This statement establishes a hierarchy of inputs used to measure fair value as follows: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The Authority’s investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

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.

Note 3 – Tax Increments Receivable

Tax increment receivable as of February 28, 2017 consists of the tax increment due from Harris County pursuant to the 381 Agreement with HC ID 18 and the Participation Agreement with Harris County, the City of Houston and TIRZ 24. The receivables are based on the difference between the base year “Market Value” and the subsequent year’s “Taxable Value” of the “area” defined by the agreements.

Tax increments receivable as of February 28, 2017 consists of the following:

	General Fund	Springwoods 381 Fund
Property taxes receivable	\$ 2,968,566	\$ 4,905,177

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 28, 2017

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 liquidated a \$226,578 transfer due from the Springwood 381 fund to the General fund and recorded an internal balance of \$306,574 for the portion of the tax increment from HC ID 18 designated for the Authority’s costs as presented below:

	<u>Interfund Balances / Transfers</u>	
	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 306,574	\$ -
Springwoods 381		306,574
	<u>\$ 306,574</u>	<u>\$ 306,574</u>

Note 5 – Due to Other Governments

Due to Other Governments, as of February 28, 2017, consists of the tax increment due to Harris County Community Services Department pursuant to the Authority’s 381 Agreement with HC ID 18 and the Interlocal (Tripartite) Operating and Interlocal (Participation) Agreements between the Authority, Harris County, the City of Houston and TIRZ 24. Due to other governments consists of the following amounts:

<u>Due To:</u>	<u>Amount</u>
Harris County Improvement District No. 18	\$ 3,985,456
Harris County Community Services Department	984,218
City of Houston	2,411,960
	<u>\$ 7,381,634</u>

Note 6 – Notes Payable

On June 13, 2014 Authority obtained a \$450,000 non-revolving line of credit loan from the 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 carried interest at 6% per year, with interest due annually on December 1. The loan was paid in full on August 5, 2016.

On March 12, 2013, Harris County approved a three year, zero percent loan between the County and the Authority in the amount of \$100,000 to provide funds for the payment of administrative expenses. The note was paid in full on July 20, 2016.

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 28, 2017***

Note 6 – Notes Payable (continued)

The Authority repaid both notes during the current year. Changes in long term liabilities during the year are as follows:

Notes payable, beginning of the year	\$ 550,000
Amounts repaid	<u>(550,000)</u>
Notes payable, end of year	<u><u>\$ -</u></u>

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 risk of loss is covered by commercial insurance.

Note 8 – Economic Development Agreements

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

On December 12, 2012, the Authority entered into a 381 Agreement (the “381 Agreement”) with Harris County and Harris County Improvement District No. 18 (the “District”), whereby the District will construct the infrastructure necessary to support the development within the boundaries of the District and the County will facilitate this development by rebating a portion of the County’s tax revenue generated as a result of new development in the Authority and the District. These rebated tax revenues will be passed through the Authority and will be used by the District to finance certain major thoroughfare roads and certain park improvements within the District.

The 381 Agreement obligates the County to rebate up to \$82,000,000 plus interest to the District to finance these improvements. The term of the 381 Agreement is through the tax year ending December 31, 2042.

Tax Increment Reinvestment Zone No 24

The City of Houston approved the creation of TIRZ 24 on December 18, 2012.

On June 13, 2014, the Authority’s board approved an Operating (Tripartite) Agreement (the “Tripartite Agreement”) with TIRZ 24 and the City of Houston. The Tripartite Agreement established the Authority’s responsibility to manage and account for the operations of TIRZ 24.

On that same date, the Authority entered into an Interlocal (Participation) Agreement (“Participation Agreement”) with the City of Houston, the County and TIRZ 24 that specified the City and County’s level of participation in community development activities within TIRZ 24.

*Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 28, 2017*

Note 8 – Economic Development Agreements (continued)

Tax Increment Reinvestment Zone No 24 (continued)

The Participation Agreement also established a 2014 “base year” in determining the change in taxable values of property located within TIRZ 24 as it relates to the County’s participation. It is expected that the Authority will receive (sixty-five percent) of the tax increment collections attributable to the County’s participation, plus interest. This amount is ultimately remitted to TIRZ 24 for use according to the approved TIRZ 24 “plan” document. Additionally, the Participation Agreement stipulates that the Authority will receive five percent (5%) additional increment to be retained by the Authority for operating and administrative expenses and another ten percent (10%) which is to be remitted to the Harris County Community Services Department for homeless initiatives and administration; five percent (5%) each. These additional amounts are exclusive of the TIRZ 24 “plan” and are not subject to section 311 of the Texas Local Government Code. The Participation Agreement also stipulates TIRZ 24 board of directors are appointed by the City of Houston, with the County having continued and unequivocal right to recommend nomination and appointment of five (5) board members and exclusive right to appoint one (1) board member without action by the City. The TIRZ 24 board is substantively the same as the Authority’s board of directors.

In November of 2014, the Authority board approved and entered into a development agreement with the City of Houston and the TIRZ 24 for reimbursing eligible public infrastructure costs in the development of an area within TIRZ 24 known as Buffalo Pointe. The only matter effecting the Authority regarding the Reimbursement Agreement is the responsibility to administer the fiscal affairs of the Reimbursement Agreement on behalf of TIRZ 24.

On November 1, 2016, the Authority and TIRZ 24 boards entered into a development agreement with Cullen Gulf Freeway, LLC that provides for the reimbursement of eligible public improvement costs up to Three Million Sixty-One Thousand Three Hundred-Thirty dollars (\$3,061,330) from the Development Tax Increments; subject to a target value increase in Development Tax Increments in the amount of Thirty Million dollars (\$30,000,000). The only matter effecting the Authority regarding this agreement is the responsibility to administer the fiscal affairs of the Reimbursement Agreement on behalf of TIRZ 24.

On November 1, 2016, the Authority and TIRZ 24 boards enter into a development agreement with Urban Intownhomes, LLC that provides for the reimbursement of eligible public improvement costs up to Three Hundred Thirty Thousand dollars (\$330,000) from the Development Tax Increment; subject to a target value increase in Development Tax Increments in the amount of Twelve Million dollars (\$12,000,000). The only matter effecting the Authority regarding this agreement is the responsibility to administer the fiscal affairs of the Reimbursement Agreement on behalf of the TIRZ 24.

Required Supplementary Information

*Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Required Supplementary Information – Budgetary Comparison Schedule – All Funds – Cash Basis
February 28, 2017*

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Tax increments	\$ 5,725,957	\$ 4,552,311	\$ (1,173,646)
Intergovernmental		701,627	701,627
Investment earnings	4,914	1,766	(3,148)
Total Revenues	<u>5,730,871</u>	<u>5,255,704</u>	<u>(475,167)</u>
Expenditures			
General government	218,124	408,842	(190,718)
Economic development	4,068,697	3,692,009	376,688
Community services - homeless programs	470,625	362,267	108,358
Total Expenditures	<u>4,757,446</u>	<u>4,463,118</u>	<u>294,328</u>
Revenues over expenditures	973,425	792,586	(180,839)
Other financing sources / (uses)			
Repayment of loan	(550,000)	(568,567)	(18,567)
Internal transfers	73,355		(73,355)
Net change in cash	<u>\$ 496,780</u>	<u>\$ 224,019</u>	<u>\$ (272,761)</u>

*Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Required Supplementary Information
February 28, 2017*

Note 1 – Budgets and Budgetary Accounting

On May 4, 2016, the Authority adopted a consolidated budget for all funds. The budget is adopted utilizing the cash basis of accounting. The primary differences between this method and the method used for the GAAP based financial statement are that, under the cash basis, revenues are recognized with received and expenditures are recognized when paid.

Note 2 – Reconciliation to GAAP Based Financial Statements

Budgetary Funds - All Funds

Financial Statement Funds	General Fund	Springwoods 381
Actual Total financial Resources - budgetary basis	\$ 989,476	\$ 4,266,228
Receipt of TIRZ No. 24 reimbursement eliminates the receivable for GAAP reporting.	(701,627)	
Internal transfers are eliminated on the budgetary basis	306,574	
Actual total revenues and other financing sources - GAAP basis	\$ 594,423	\$ 4,266,228
Actual total uses of financial resources - budgetary basis	4,463,118	
Adjustments		
To adjust expenditures for accruals and deferrals	48,119	599,938
Reclassifications		
Expenditures related to the disbursement of tax increments received from Harris County are reclassified to Springwoods 381 for GAAP reporting	(3,998,665)	3,998,665
Internal transfers out are eliminated on the budgetary basis		306,574
Actual total expenditures and other financing uses - GAAP basis	\$ 512,572	\$ 4,905,177