

**HARRIS COUNTY
REDEVELOPMENT AUTHORITY**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

February 29, 2016

--oo0oo--

Table of Contents

	<u>Schedule</u>	<u>Page</u>
Independent Auditors' 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 – General Fund		14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – General Fund		15
Notes to Basic Financial Statements		17
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – All Funds – Cash Basis		26
Notes to Required Supplementary Information		27

--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 General Fund of Harris County Redevelopment Authority, (a component unit of Harris County, Texas) as of and for the year ended February 29, 2016, 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 General Fund of Harris County Redevelopment Authority, as of February 29, 2016, 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
September 29, 2016

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 29, 2016

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 29, 2016. 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.

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.

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 plus deferred outflows of resources less liabilities less deferred inflows of resources. The Authority's net position at February 29, 2016 and February 28, 2015 were \$445,209 and negative \$481,777, respectively.

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 29, 2016

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.

A comparative summary of the Authority's overall financial position, as of February 29, 2016 and February 28, 2015 is as follows:

	2016	2015
Current assets	<u>\$ 6,588,345</u>	<u>\$ 1,932,778</u>
Current liabilities	5,693,136	1,964,555
Long-term liabilities	<u>450,000</u>	<u>450,000</u>
Total liabilities	<u>6,143,136</u>	<u>2,414,555</u>
Net position		
Unrestricted	445,209	(481,777)
Total net assets	<u><u>\$ 445,209</u></u>	<u><u>\$ (481,777)</u></u>

The total net position of the Authority increased by \$926,986. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2016	2015
Revenues		
Tax increment revenues	\$ 4,553,469	\$ 1,888,382
Investment income		37
Total revenues	<u>4,553,469</u>	<u>1,888,419</u>
Expenses		
Management fees		90,000
Professional fees	7,367	45,976
Grants - 381 Agreements	3,466,451	1,534,310
Administrative	366,066	123,547
Homeless programs	362,339	118,024
Interest		<u>19,079</u>
Total expenses	<u>4,202,223</u>	<u>1,930,936</u>
Change in net position before other item	351,246	(42,517)
Other item		
TIRZ No. 24 reimbursement	<u>575,740</u>	
Change in net position	926,986	(42,517)
Net position, beginning of year	<u>(481,777)</u>	<u>(439,260)</u>
Net position, end of year	<u><u>\$ 445,209</u></u>	<u><u>\$ (481,777)</u></u>

**Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 29, 2016**

Financial Analysis of the Authority's Funds

General Fund

The Authority's General Fund balance, as of February 29, 2016 was \$708,141 with a net increase in fund balance of \$639,918. The following is a comparative summary of the financial position and activities for the General Fund for the last two years is follows:

	2016	2015
Total assets	<u>\$ 2,589,680</u>	<u>\$ 162,420</u>
Total liabilities	\$ 1,594,471	\$ 94,197
Total deferred inflows	287,068	
Total fund balance	<u>708,141</u>	<u>68,223</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,589,680</u>	<u>\$ 162,420</u>
Total revenues	\$ -	\$ 39
Total expenditures	<u>202,472</u>	<u>160,579</u>
Revenues under expenditures	(202,472)	(160,540)
Other changes in fund balance	<u>842,390</u>	<u>568,024</u>
Net change in fund balance	<u>\$ 639,918</u>	<u>\$ 407,484</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. The following is a comparative summary of the financial position and activities for the Springwoods 381 Fund for the last two years:

	2016	2015
Total assets	<u>\$ 3,998,665</u>	<u>\$ 1,770,358</u>
Total liabilities	\$ 3,998,665	\$ 1,770,358
Total deferred inflows	4,265,243	1,888,382
Total fund balance	<u>(4,265,243)</u>	<u>(1,888,382)</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 3,998,665</u>	<u>\$ 1,770,358</u>
Total revenues	\$ 1,889,540	\$ 152,963
Total expenditures	<u>3,999,751</u>	<u>1,770,359</u>
Revenues under expenditures	(2,110,211)	(1,617,396)
Other changes in fund balance	<u>(266,650)</u>	<u>(118,024)</u>
Net change in fund balance	<u>\$ (2,376,861)</u>	<u>\$ (1,735,420)</u>

**Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 29, 2016**

Fund Budgetary Highlights

The Board of Directors adopts a combined annual unappropriated 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 \$41,992 more than budgeted. The *Budgetary Comparison Schedule* on page 26 of this report provides variance information per financial statement line item.

Currently Known Facts and Conditions

As of February 29, 2015, the Authority had incurred expenses totaling \$575,740 on behalf of the City of the Houston Tax Increment Reinvestment Zone Number Twenty Four ("the TIRZ") for start-up and operating expenses. The Authority incurred another \$125,887 in management and administrative costs during the current year, bringing the total expenses on behalf of the TIRZ to \$701,627. Each year, the TIRZ 24 board ratifies and acknowledges the expenses made on behalf of the TIRZ by the Authority. Initially, to fund the startup costs, the Authority made application and received approval of a \$450,000 non-revolving line of credit loan from the Harris County Housing Finance Corporation in 2014. On March 1, 2013, the Authority received a \$100,000 loan from the Harris County Community Services Department with a maturity of February 29, 2016. The Authority, based on acknowledgement and ratification of expenses on behalf of TIRZ 24, established a receivable from the TIRZ. Once payment is made by TIRZ 24 to the Authority, the Authority will retire all debts associated with the TIRZ creation and operating expenses. Payment is expected within the 2016-17 fiscal year.

On December 12, 2012, The Authority entered into a 40 year economic development agreement (the "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 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 agreement. The Authority and County's obligations are limited to only the increased tax revenues collected and does not extend beyond the life of the agreement.

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

On the same date, the Authority entered into an interlocal (participation) agreement with the City of Houston, the County and TIRZ 24 that specified the City and County's level of participation in economic development activities within the boundaries of TIRZ 24. The interlocal agreement also established a 2014 base year for determining the change in taxable values of property located within the TIRZ. The

**Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management’s Discussion and Analysis
February 29, 2016**

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 for the Authority’s operating and administrative expenses, sixty-five percent (65%) will be remitted to TIRZ 24 for economic development efforts, as outlined in the TIRZ 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 May 2016.

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>2016 Actual</u>	<u>2017 Budget</u>
Total revenues	\$ 1,889,540	\$ 5,451,625
Total expenditures	<u>(1,843,492)</u>	<u>(5,268,668)</u>
Net change in cash	46,048	182,957
Cash on hand at beginning of year	<u>44,396</u>	<u>90,444</u>
Cash on hand at end of year	<u><u>\$ 90,444</u></u>	<u><u>\$ 273,401</u></u>

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.

(This page intentionally left blank)

Basic Financial Statements

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Statement of Net Position - Governmental Activities
February 29, 2016

Assets	
Cash	\$ 90,444
Taxes increment receivable	5,796,274
Due from other governments	701,627
Total Assets	<u>\$ 6,588,345</u>
Liabilities	
Accounts payable	152,471
Due to other governments	5,434,007
Accrued interest payable	6,658
Notes payable	
Due within one year	100,000
Due after one year	450,000
Total Liabilities	<u>6,143,136</u>
Net Position	
Unrestricted	445,209
Total Net Position	<u>\$ 445,209</u>

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Statement of Activities - Governmental Activities
For the Year Ended February 29, 2016

	<u>Total</u>	<u>General Government</u>	<u>Economic & Community Development</u>
Expenses			
Professional fees	\$ 7,367	\$ 7,367	\$ -
Grants	3,466,451		3,466,451
Administrative	366,066	366,066	
Homeless programs - transfer to Harris County	362,339		362,339
Total Expenses	<u>4,202,223</u>	<u>373,433</u>	<u>3,828,790</u>
General Revenues			
Tax increments	4,553,469		
Total General Revenues	<u>4,553,469</u>		
Revenues over expenses	351,246		
Other Item			
TIRZ No. 24 reimbursement	<u>575,740</u>		
Change in net position	926,986		
Net Position			
Beginning of the year	<u>(481,777)</u>		
End of the year	<u>\$ 445,209</u>		

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Balance Sheet - Governmental Funds
February 29, 2016

	General Fund	Springwoods 381	Total
Assets			
Cash	\$ 90,444	\$ -	\$ 90,444
Tax increment receivable	1,531,031	4,265,243	5,796,274
Internal balances	266,578	(266,578)	
Due from other governments	701,627		701,627
Total Assets	\$ 2,589,680	\$ 3,998,665	\$ 6,588,345
Liabilities			
Accounts payable	\$ 152,471	\$ -	\$ 152,471
Due to other governments	1,435,342	3,998,665	5,434,007
Accrued interest payable	6,658		6,658
Total Liabilities	1,594,471	3,998,665	5,593,136
Deferred Inflows of Resources			
Deferred property tax increment	287,068	4,265,243	4,552,311
Fund Balance			
Unassigned	708,141	(4,265,243)	(3,557,102)
Total Fund Balances	708,141	(4,265,243)	(3,557,102)
Total Liabilities, Deferred Inflows and Fund Balances	\$ 2,589,680	\$ 3,998,665	\$ 6,588,345

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

Total fund balance - governmental funds	\$ (3,557,102)
Notes Payable in Statement of Net Position are not recorded in the Balance Sheet of the Governmental Funds.	(550,000)
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 and TIRZ payments to the RDA.	4,552,311
Total net position - governmental activities	\$ 445,209

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 29, 2016

	General Fund	Springwoods 381	Total
Revenues			
Taxes increment	\$ -	\$ 1,889,540	\$ 1,889,540
Total Revenues	<u>-</u>	<u>1,889,540</u>	<u>1,889,540</u>
Expenditures			
Current			
General government	106,783	266,650	373,433
Economic development		3,466,451	3,466,451
Community services - homeless programs	95,689	266,650	362,339
Total Expenditures	<u>202,472</u>	<u>3,999,751</u>	<u>4,202,223</u>
Revenues under expenditures	(202,472)	(2,110,211)	(2,312,683)
Other Financing Sources			
Internal transfers	266,650	(266,650)	
Other Item			
TIRZ No. 24 reimbursement	575,740		575,740
Net change in fund balances	639,918	(2,376,861)	(1,736,943)
Fund Balances			
Beginning of the year	68,223	(1,888,382)	(1,820,159)
End of the year	<u>\$ 708,141</u>	<u>\$ (4,265,243)</u>	<u>\$ (3,557,102)</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	\$ (1,736,943)
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.	4,553,469
Revenues recognized in the current fiscal year that were deferred inflows in the previous period.	(1,889,540)
Change in Net Position	<u>\$ 926,986</u>

(This page intentionally left blank)

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 29, 2016

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 and maintaining employment, commerce and economic development programs on behalf of the County and 2) the administration and implementation of the TIRZ and Chapter 381 economic development agreements within Harris County.

Currently, the Authority is responsible for a 381 agreement with Harris County Improvement District 18 (HC ID 18) for the mater 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 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 he Greater Houston Tax Increment Reinvestment Zone No. 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 29, 2016

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 District 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 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. 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 29, 2016

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 29, 2016, 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.

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.

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 29, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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.

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.

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 29, 2016

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.

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.

Note 3 – Tax Increments Receivable

Tax increment receivable as of February 29, 2016, 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 agreement. Tax increments receivable as of February 29, 2016, consists of the following:

	<u>General Fund</u>	<u>Springwoods 381 Fund</u>
Property taxes receivable	\$ 1,531,031	\$ 4,265,243

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 29, 2016

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 \$118,024 transfer due from the Springwood 381 fund to the General fund and recorded an internal balance of \$266,578 for the portion of the tax increment from HC ID 18 designated for the Authority's costs as presented below:

	Interfund Balances / Transfers	
	Receivable	Payable
General Fund	\$ 266,578	\$ -
Springwoods 381		266,578
	<u>\$ 266,578</u>	<u>\$ 266,578</u>

Note 5 – Due to Other Governments

Due to Other Governments as of February 29, 2016, 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 operating (tripartite) and participation agreements between the Authority, Harris County, the City of Houston and TIRZ 24. Due to other governments consists of the following amounts:

Due To:	Amount
Harris County Improvement District No. 18	\$ 3,465,510
Harris County Community Services Department	724,534
Greater Houston TIRZ No. 24	1,243,963
	<u>\$ 5,434,007</u>

Note 6 – Debt and Note 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 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.

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 due on February 29, 2016. However, the County has agreed to extend repayment of the loan until the Authority has received the accrued TIRZ revenues.

The Authority's notes payable at February 29, 2016 is \$550,000. There was no change in this liability from the prior year.

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
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 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 “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 Agreement obligates the County to rebate up to \$82,000,000 plus interest to the District to finance these improvements. The term of the 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. Pursuant to an agreement between the City and the County, TIRZ 24 is controlled and operated by the Authority. 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.

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 inter-local (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 inter-local agreement also established a 2014 base year for determining the change in taxable values of property located within TIRZ 24. It is expected that the Authority will receive from the City the portion (sixty-five percent) of the tax increment collections attributable to the county tax Increment, plus interest. This amount will be remitted to TIRZ 24 for use according to the approved TIRZ “plan” document. Additionally the tripartite 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 “plan” and are not subject to section 311 of the Texas Local Government Code.

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 29, 2016

Note 8 – Economic Development Agreements (continued)

Tax Increment Reinvestment Zone No 24 (continued)

In November of 2014, the Authority board approved and entered into a reimbursement 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 this agreement is the responsibility to administer the fiscal affairs of the agreement on behalf of the TIRZ.

Note 9 – Subsequent Event

A taxpayer located within the 381 agreement zone, ExxonMobil, has filed a lawsuit against the Harris County Appraisal District (“HCAD”) challenging its 2015 valuation of \$1,041,454,583. ExxonMobil did not provide an estimate of value in connection with its lawsuit; however, during its hearing with the HCAD appraisal review board, ExxonMobil provided a value of \$635,000,000. Subsequent to fiscal year end, ExxonMobil paid its full 2015 tax levy of approximately \$15.6 million. The outcome of ExxonMobil’s lawsuit is not known as of the date of the audit report. If ExxonMobil is successful in its lawsuit, the Authority and Harris County Improvement District 18 will have to refund taxes paid on value in excess of the final determination of value.

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 29, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Tax increments	\$ 1,888,382	\$ 1,889,540	\$ 1,158
Expenditures			
General government	219,992	177,145	42,847
Economic development	1,546,310	1,548,251	(1,941)
Intergovernmental	118,024	118,096	(72)
Total Expenditures	<u>1,884,326</u>	<u>1,843,492</u>	<u>40,834</u>
Net change in cash	<u>\$ 4,056</u>	<u>\$ 46,048</u>	<u>\$ 41,992</u>
Cash on hand at beginning of year	\$ 44,396	\$ 44,396	\$ -
Cash on hand at end of year	\$ 48,452	\$ 90,444	\$ 41,992

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Required Supplementary Information
February 29, 2016

Note 1 – Budgets and Budgetary Accounting

On June 24, 2015, 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	\$ 1,889,540	\$ -
Tax increment revenues are reclassified to Springwoods 381 fund for GAAP reporting	(1,889,540)	1,889,540
Internal transfers are eliminated on the budgetary basis	266,650	
Actual total revenues and other financing sources - GAAP basis	\$ 266,650	\$ 1,889,540
Actual total uses of financial resources - budgetary basis	1,843,492	
Adjustments		
To adjust expenditures for accruals and deferrals	130,423	2,228,308
Reclassifications		
Expenditures related to the disbursement of tax increments received from Harris County are reclassified to Springwoods 381 for GAAP reporting	(1,771,443)	1,771,443
Internal transfers out are eliminated on the budgetary basis		266,650
Actual total expenditures and other financing uses - GAAP basis	\$ 202,472	\$ 4,266,401