

**HARRIS COUNTY
REDEVELOPMENT AUTHORITY**
A Component Unit of Harris County, Texas

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**
As of and for the year ended September 30, 2023

**HARRIS COUNTY REDEVELOPMENT AUTHORITY
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Harris County Redevelopment Authority
Houston, Texas

Opinion

We have audited the financial statements of the governmental activities and each major fund of the Harris County Redevelopment Authority (the "Authority"), a component unit of Harris County, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. GAAS, 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.

Hann, Langston & Buzina, LLP

Houston, Texas
January 31, 2024

HARRIS COUNTY REDEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Using this Annual Report

Within this section of the financial report of the 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 as of September 30, 2023. 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, and
- Supplementary information required by the Governmental Accounting Standards Board ("GASB") concerning the Authority's budget.

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 current period. 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 Statement of 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 period.

For further discussion on the government-wide and fund financial statements, please refer to Note 2 in the basic 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 September 30, 2023 was \$4,084,440. 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.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financial Analysis of the Authority as a Whole, continued

Net Position

The total net position at September 30, 2023 was \$4,084,440 an 18% increase from September 30, 2022. (See Table A-1 Below).

Table A-1 Authority's Net Position

	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Current and other	\$ 4,122,974	\$ 4,471,919
Total assets	<u>\$ 4,122,974</u>	<u>\$ 4,471,919</u>
Current liabilities	\$ 38,534	\$ 31,225
Total liabilities	<u>\$ 38,534</u>	<u>\$ 31,225</u>
Deferred inflows of financial resources	\$ -	\$ 993,757
Net position	<u>\$ 4,084,440</u>	<u>\$ 3,446,937</u>

As of September 30, 2022, property tax increments were over funded by \$993,757 that was recorded as deferred inflows of financial resources and was recognized as property tax increments during the year ended September 30, 2023. There was not any overpayment for property tax increments as of September 30, 2023.

Changes in Net Position

The increase in financial position for year ended September 30, 2023 when compared to the period from March 1, 2022 to September 30, 2022 was \$637,503. The total operating revenues increased by 34,557%, or \$5,355,640, and total operating expenses increased by 6,175%, or \$4,658,197. Operating income increased by \$697,443 (See Table A-2).

Table A-2 Changes in the Authority's Financial Position

	<u>Year ended September 30, 2023</u>	<u>March 1 to September 30, 2022</u>
Operating revenues:		
Property tax increments	\$ 5,243,258	\$ -
Investment earnings	<u>127,880</u>	<u>15,498</u>
Total operating revenues	<u>5,371,138</u>	<u>15,498</u>
Operating expenses:		
Community development	4,299,691	-
General government	<u>433,944</u>	<u>75,438</u>
Total operating expenses	<u>4,733,635</u>	<u>75,438</u>
Change in net position	637,503	(59,940)
Net position at beginning of year	<u>3,446,937</u>	<u>3,506,877</u>
Net position at end of year	<u>\$ 4,084,440</u>	<u>\$ 3,446,937</u>

On April 7, 2022, the Board of Directors adopted a resolution to change the Authority's fiscal year end from February 28th to September 30th of each year. Property taxes are typically levied in November each year, as such there were no property tax increments and the related expenses derived from tax increment revenues during the period from March 1, 2022 to September 30, 2022. As a result, the increase operating revenues and expenses for the year ended September 30, 2023 is due to the change in fiscal year in 2022.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financial Analysis of the Authority's Funds

General Fund

The total fund balance of the Authority's General Fund at September 30, 2023 was \$4,083,448, an 18% increase from September 30, 2022 (See Table A-3 Below).

Table A-3 Fund Balance – General Fund

	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Total assets	\$ 4,121,982	\$ 4,470,962
Total liabilities	\$ 38,534	\$ 31,225
Total deferred inflows	-	993,757
Total fund balance	<u>4,083,448</u>	<u>3,445,980</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 4,121,982</u>	<u>\$ 4,470,962</u>

The decrease in deferred inflows at September 30, 2023 when compared to September 30, 2022 was due to the property tax increments were over funded by \$993,757 as of September 30, 2022.

The increase in fund balance as of September 30, 2023 when compared to September 30, 2022 was \$637,468. Total operating revenues decreased by 39%, or \$390,256, and total operating expenses increased by 258%, or \$194,702. Operating income decreased by \$584,958 (See Table A-4).

Table A-4 Changes in Authority's General Fund Balance

	<u>Year ended September 30 2023</u>	<u>March 1 to September 30 2022</u>
Total revenues	\$ 610,042	\$ 1,000,298
Total expenditures	<u>270,140</u>	<u>75,438</u>
Revenues (under) over expenditures	339,902	924,860
Transfer from other fund	<u>297,566</u>	<u>-</u>
Net change in fund balance	<u>\$ 637,468</u>	<u>\$ 924,860</u>

Total revenues decreased from the year ended September 30, 2023 when compared to the period ended September 30, 2022. The Authority's operating revenues are substantially derived from a portion of incremental tax revenues associated with a section 381 agreement and the City of Houston Tax Increment Reinvestment Zone - Number 24; which can decline and/or increase relative to prior revenue collections. Annually, the Harris County Tax Assessor's office calculates and may, from time to time, "adjust" remittances to the Authority based on fluctuations in taxable property values and experienced tax collection rates. Additionally, these revenue vehicles are tied to tax rates adopted by Commissioners Court. The decline in revenues between the current and prior reporting period is due to the decreased tax rate, property tax valuations and collection rates applied during the calculations; as described above. Total expenditures increased from the year ended September 30, 2023 when compared to period ended September 30, 2022 are due to the timing and recognition of an engineering study procured by the Authority.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financial Analysis of the Authority's Funds, continued

Springwoods 381 Fund

The total fund balance of the Authority's Springwoods 381 Fund at September 30, 2023 was \$992 and is consistent with September 30, 2022 (See Table A-5 Below).

Table A-5 Fund Balance – Springwoods 381 Fund

	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Total assets	\$ 992	\$ 321,942
Total liabilities	\$ -	\$ 320,985
Total fund balance	992	957
Total liabilities and fund balance	\$ 992	\$ 321,942

The decrease in current and other assets and total liabilities at September 30, 2023 when compared to September 30, 2022 is due to the timing and recognition of property tax increment revenue and related expenses.

The increase in fund balance for the year ended September 30, 2023 when compared to the year ended September 30, 2022 was \$5,135,729. Total operating revenues decreased by 7%, or \$374,668, and total operating expenses increased by 100%, or \$4,463,495. Operating income decreased by \$4,838,163 (See Table A-6).

Table A-6 Changes in Authority's Springwoods 381 Fund Balance

	<u>Year ended September 30 2023</u>	<u>March 1 to September 30 2022</u>
Total revenues	\$ 4,761,096	\$ 5,135,764
Total expenditures	4,463,495	-
Revenues over expenditures	297,601	5,135,764
Transfer to other fund	(297,566)	-
Net change in fund balance	\$ 35	\$ 5,135,764

The decrease in total revenues for the year ended September 30, 2023 compared to the period from March 1, 2022 to September 30, 2022 is due primarily to the timing of property tax levies and corresponding rebates. The increase in total expenditures and transfer to other fund for the year ended September 30, 2023 compared to the period from March 1, 2022 to September 30, 2022 is due primarily to the change in fiscal year in 2022.

Fund Budgetary Highlights

The Board of Directors adopts a combined annual unappropriated cash-basis budget for the General Fund and Springwoods 381 Fund each fiscal period. The Board did not amend the budget during the fiscal period. Since the budget is primarily a planning tool, actual results may vary from the budgeted amounts. As noted previously, due to the change in the Authority's fiscal year, the board adopted a 19 month budget that spanned from March 1, 2022 through September 30, 2023 and was separated into a 7 month and 12 month segments. For the current fiscal period, from September 30, 2023 to September 30, 2022, actual net change in fund balance was \$114,915 higher than budgeted. The difference between the net change is primarily due to the decrease in economic development expenditures which was offset by the actual property tax increment was less than budgeted amount as discussed above. The *Summary Budgetary Comparison Schedule* on page 19 of this report provides variance information per financial statement line item.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 tax increment revenues, proceeds from the issuance of bonds and planned community development projects. A comparison of next year's cash basis budget to current year cash basis actual amounts for the General Fund is as follows:

	Year Ended September 30 2023 <u>Actual</u>	Year Ending September 30 2024 <u>Actual</u>
Total revenues	\$ 5,309,029	\$ 8,853,680
Total expenditures	<u>4,726,326</u>	<u>21,743,620</u>
Revenues over (under) expenditures	582,703	(12,889,940)
Beginning cash on hand and investments	3,540,271	4,122,938
Bond proceeds	-	52,247,064
Debt service	-	(4,986,997)
Transfers from TIRZ 24	<u>-</u>	<u>10,123,944</u>
Ending cash on hand and investments	<u>\$ 4,122,974</u>	<u>\$ 48,617,009</u>

Contacting the Authority's Financial Management

This financial report is designed to discuss issues that may be material to the operation of the Authority. If you have any questions about this report, please contact Harris County Community Services Department, 8410 Lantern Point Dr. Houston, Texas 77054.

HARRIS COUNTY REDEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2023

	<u>Total</u>
ASSETS	
Cash	\$ 1,404,924
Investments, at fair value	<u>2,718,050</u>
Total assets	<u><u>\$ 4,122,974</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable and accrued liabilities	<u><u>\$ 38,534</u></u>
NET POSITION	
Unrestricted	<u>4,084,440</u>
Total net position	<u><u>\$ 4,084,440</u></u>

The accompanying notes are an integral part of these basic financial statements.

**HARRIS COUNTY REDEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	<u>Total</u>	<u>General Government</u>	<u>Economic & Community Development</u>
EXPENSES			
Administrative	\$ 433,944	\$ 433,944	\$ -
Professional fees	133,762	-	133,762
Grants	3,868,363	-	3,868,363
Community services-homeless programs	<u>297,566</u>	<u>-</u>	<u>297,566</u>
Total expenses	<u>4,733,635</u>	<u>433,944</u>	<u>4,299,691</u>
GENERAL REVENUES			
Tax increments	5,243,258		
Investment earnings	<u>127,880</u>		
Total general revenues	<u>5,371,138</u>		
Change in net position	637,503		
Net position, beginning of year	<u>3,446,937</u>		
Net position, end of year	<u><u>\$ 4,084,440</u></u>		

The accompanying notes are an integral part of these basic financial statements.

**HARRIS COUNTY REDEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023**

	General Fund	Springwoods 381 Fund	Total
ASSETS			
Cash	\$ 1,404,724	\$ 200	\$ 1,404,924
Investments, at fair value	<u>2,717,258</u>	<u>792</u>	<u>2,718,050</u>
Total assets	<u><u>\$ 4,121,982</u></u>	<u><u>\$ 992</u></u>	<u><u>\$ 4,122,974</u></u>
LIABILITIES			
Accounts payable and accrued liabilities	<u><u>\$ 38,534</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 38,534</u></u>
FUND BALANCE			
Unassigned	<u>4,083,448</u>	<u>992</u>	<u>4,084,440</u>
Total fund balance	<u><u>\$ 4,083,448</u></u>	<u><u>\$ 992</u></u>	<u><u>\$ 4,084,440</u></u>

The accompanying notes are an integral part of these basic financial statements.

**HARRIS COUNTY REDEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTMEBER 30, 2023**

	General Fund	Springwoods 381 Fund	Total
REVENUES			
Property tax increments	\$ 482,199	\$ 4,761,059	\$ 5,243,258
Investment earnings	<u>127,843</u>	<u>37</u>	<u>127,880</u>
Total revenues	<u>610,042</u>	<u>4,761,096</u>	<u>5,371,138</u>
EXPENDITURES			
General government	270,140	297,566	567,706
Economic development	-	3,868,363	3,868,363
Community services - homeless programs	<u>-</u>	<u>297,566</u>	<u>297,566</u>
Total expenditures	<u>270,140</u>	<u>4,463,495</u>	<u>4,733,635</u>
Revenues over expenditures	339,902	297,601	637,503
Other Financing Sources (Uses)			
Transfer from (to) other funds	<u>297,566</u>	<u>(297,566)</u>	<u>-</u>
FUND BALANCES			
Beginning of year	<u>3,445,980</u>	<u>957</u>	<u>3,446,937</u>
End of year	<u><u>\$ 4,083,448</u></u>	<u><u>\$ 992</u></u>	<u><u>\$ 4,084,440</u></u>

The accompanying notes are an integral part of these basic financial statements.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

1. Organization and Nature of Operations

The Harris County Redevelopment Authority (the "Authority") is a non-profit 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 Zone 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 ("HCID 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 Houston's eastern downtown and the NRG (formerly Reliant) Park areas. See Note 6 for additional information.

The Authority has contracted with consultants to provide services to operate and administer the affairs of the Authority. The Authority has no employees, related payroll or pension costs. The Authority's Board of Directors held its first meeting on December 12, 2012 and has held at least one meeting each year since its inception.

2. Summary of Significant Accounting Policies

In accordance with Government Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* ("GASB 14"), as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* ("GASB 61"), the Authority is a component unit of Harris County, Texas for financial reporting purposes; the Authority does not have any component units. Pursuant Chapter 391, of the Texas Local Government Code the Authority is a nonprofit public corporation in the State of Texas and governed by an appointed seven-member board.

The Authority complies with accounting principles generally accepted in the United States of America ("U.S. GAAP") and applies all relevant GASB pronouncements. Proprietary funds apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Financial Statement Presentation

These financial statements are presented in accordance with GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Accordingly, these financial statements include the following:

- A Management's Discussion and Analysis ("MD&A") section providing management's analysis of the Authority's overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for the Authority's governmental activities.
- Fund financial statements focusing on the major funds.

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 statements consist of the *Statement of Net Position* and the *Statement of Activities*.

In the government-wide statement of net position, governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Authority's governmental activities. Direct expenses are those that are specifically associated with a function or program and, therefore, are clearly identifiable to a particular function or program. Function or program revenues include amounts charged for goods or services and grant awards that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as function or program revenues, such as investment earnings, are presented as general revenues.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fund Financial Statements

Financial statements of the Authority are organized into funds, each of which is considered to be a separate accounting entity. Funds are accounted for in separate sets of self-balancing accounts reflecting their respective assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Each of the fund statements should report separate columns for the general fund and for other major governmental and enterprise funds. A fund is considered major if it meets both of the following criteria:

- (a) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and
- (b) The element that met the 10% criteria above is at least 5% of the aggregate amount for all governmental and enterprise funds.

Any other fund may be reported as a major fund, whether or not it meets the criteria in both (a) and (b) above, if the Authority believes that the fund is particularly important to financial statement users. Currently, the Authority uses two funds: the General Fund and the Springwoods 381 Fund, which are both considered major funds. Expenditures include costs associated with the creation and operation of the Authority. Fund financial statements are the *Balance Sheet* and the *Statement of Statement of Revenues, Expenditures and Changes in Fund Balance*.

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 financial transactions not reported in other fund. During the current fiscal period, the General Fund's principal financial resources were from property tax increments. 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 HCID 18. This fund's primary financial resources are from property tax increments.

Use of Estimates

The process of preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses. Management believes its estimates and assumptions are reasonable; however, actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all cash and short term, highly liquid investments with original maturities of three months or less to be cash and cash equivalents, respectively. The Authority maintains demand deposits with financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC").

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.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Investments, continued

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.

Net Position

Governmental 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:

Non-spendable - amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact. The Authority does not have any non-spendable 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. Currently, the Authority does not have any restricted 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.

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.

Tax Increment Revenues

Tax increment revenues are paid to the Authority by the District pursuant to the Interlocal Participation Agreement discussed in Note 6 with Harris County and the City of Houston and are derived from property taxes for Harris County and the Harris County Flood Control District. Tax increments are recognized as revenues in the year for which they are levied.

Income Taxes

No income tax provision has been included in the financial statements since the Authority is a Texas public not-for-profit instrument of the local government; thus, its revenues are non-taxable for federal income tax purposes under section 115 of the IRC.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2023, investment securities, consisting of government investment pools, are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized and realized gains and losses on investments, dividends and interest income are reported in the statement of activities as increases or decreases in net position.

Concentration of Credit Risk

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of cash and investments. The Authority maintains its cash and investments with major financial institutions selected based upon management's assessment of the institution's financial stability.

As of September 30, 2023, all of the Authority's demand deposits were either insured by the FDIC or collateralized with obligations of the United States of America or its agencies and instrumentalities or local government rated securities. All of the financial investments are held in creditworthy financial institutions in the name of the Authority which protects against credit risk of the financial institution holding the investments. Balances at these institutions periodically exceed FDIC limits; however, the Authority has not experienced any losses from these deposits and management believes the risk of loss is minimal due to the strength of the financial institutions in which the funds are held.

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.

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.

3. Investments

The Board of Directors of the Authority adopted an investment policy pursuant to Chapter 2256 of the Texas Government Code (the "Code"), and authorized investments generally include obligations of the United States of America or its agencies and instrumentalities; fully collateralized certificates of deposit from approved public depositories; direct obligations of the State of Texas or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States of America or their respective agencies and instrumentalities; fully collateralized repurchase agreements; and other instruments and obligations authorized by the Code.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

3. Investments, continued

TexSTAR

The Authority participates in Texas Short Term Asset Reserve fund ("TexSTAR") which is managed by Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. Hilltop Securities 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. 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 administrator and UMB Bank N.A. as the custodian.

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's investment in Texas CLASS is measured using published fair value per share. 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.

The following is a summary of the Authority's investments at September 30, 2023:

	<u>Carrying Value</u>	<u>Percentage of Total</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
TexSTAR:				
General Fund	\$ 1,088,579	40.0%	AAAm	40 days
Texas CLASS:				
General Fund	1,628,679			
Springwoods 381 Fund	<u>792</u>			
Total Texas CLASS	<u>1,629,471</u>	<u>60.0%</u>	AAAm	23 days
Total investments	<u>\$ 2,718,050</u>	<u>100.0%</u>		

Investments are reported at fair value in accordance with GASB 72, *Fair Value Measurement and Application*, which defines fair value, establishes a framework for measuring fair value, and establishes disclosures about fair value measurements. GASB 72 establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the specific characteristics of the investment. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

3. Investments, continued

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Investments traded in an active market with available quoted prices for identical assets as of the reporting date.

Level 2 – Investments not traded on an active market but for which observable market inputs are available for an asset, either directly or indirectly, as of the reporting date.

Level 3 – Investments not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

The Authority has established a framework to consistently measure the fair value of the Authority's assets and liabilities in accordance with applicable accounting, legal, and regulatory guidance. This framework has been provided by establishing valuation policy and procedures that will provide reasonable assurance that assets and liabilities are carried at fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Authority's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the investment. As of September 30, 2023, the Authority valued the government investment at net asset value provided by the custodians.

4. Interfund Balances and Transactions

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 ended September 30, 2023, the Authority recorded an internal balance and transfer of \$297,566 for the portion of the tax increment from HCID 18 designated for the Authority's costs as presented below:

	<u>Interfund Balances</u>	
	<u>Other Financial Source</u>	<u>Other Financial Use</u>
General Fund	\$ 297,566	\$ -
Springwoods 381 Fund	-	297,566
Net change in fund balance	<u>\$ 297,566</u>	<u>\$ 297,566</u>

5. Liquidity

The Authority is substantially supported by tax increment revenues which are not subject to restrictions; thus, all financial assets are available for general expenditure within one year. As part of the Authority's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

6. Development Agreements

Harris County Improvement District No. 18 (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 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 District. As part of the 381 Agreement, the Authority will retain 5% 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; 65% and 10% respectively. These rebated tax revenues will be used by the District to finance certain major thoroughfare roads and certain park improvements within the District.

HARRIS COUNTY REDEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

6. Development Agreements, continued

Harris County Improvement District No. 18 (Springwoods 381), continued

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. During the year ended September 30, 2023, the Authority remitted \$3,868,360 of rebated tax revenues to the District and Harris County Community Services Department, respectively, pursuant to the 381 Agreement.

City of Houston, Tax Increment Reinvestment Zone No. 24

The City of Houston approved the creation of Tax Increment Reinvestment Zone No. 24 ("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.

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 65% of the tax increment collections attributable to the County's participation, plus interest. Effective December 2022, the County's participation was increased from 5% to 75%. This amount is ultimately remitted to TIRZ 24 for use according to the approved TIRZ "plan" document. Additionally, the Agreement stipulates that the Authority will receive 5% additional increment to be retained by the Authority for operating and administrative expenses and another 10% which is to be remitted to the Harris County Community Services Department for homeless initiatives and administration; 5% each. These additional amounts are exclusive of the TIRZ "plan" and are not subject to section 311 of the Texas Local Government Code. The Agreement also stipulates TIRZ 24 board of directors are appointed by the City of Houston, with the County having continuing and unequivocal right to recommend nomination and appointment of five board members and exclusive right to appoint one board member without action by the City. The TIRZ 24 board is substantively the same as the Authority's board of directors. During the year ended September 30, 2023, the Authority remitted \$5,461,173 of tax increments to TIRZ 24 pursuant to the Participation Agreement.

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 the TIRZ.

On November 1, 2016, TIRZ 24 and the Authority boards entered into a development agreement with Cullen Gulf Freeway, LLC. ("Cullen") that provides for the reimbursement of eligible public improvement costs up to \$3,061,330 from tax increments in the area to be developed by Cullen ("Development Tax Increment"), subject to a target value increase in Development Tax Increment in the amount of \$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, TIRZ 24 and the Authority boards enter into a development agreement with Urban Intownhomes, LLC. ("Urban") that provides for the reimbursement of eligible public improvement costs up to \$330,000 from tax increments in area under development by Urban ("Development Tax Increment"), subject to a target value increase in Development Tax Increment in the amount of \$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. The terms of the Cullen and Urban agreements were fully satisfied by both parties, and the final payments were remitted by TIRZ 24 during the year ended September 30, 2023.

7. Subsequent Events

The Authority has evaluated all subsequent events through January 31, 2024, which is the date the financial statements were issued, and has concluded that there are no significant events to be reported.

SUPPLEMENTARY FINANCIAL SCHEDULES AND INFORMATION
(Unaudited)

**HARRIS COUNTY REDEVELOPMENT AUTHORITY
SUMMARY BUDGETARY COMPARISON SCHEDULE - CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Original and Final Budget	Actual	Variance
REVENUES			
Property tax increments	\$ 5,934,580	\$ 5,181,149	\$ 753,431
Investment earnings	<u>3,854</u>	<u>127,880</u>	<u>(124,026)</u>
Total revenues	<u>5,938,434</u>	<u>5,309,029</u>	<u>629,405</u>
EXPENDITURES			
General government	371,620	560,397	(188,777)
Economic development	4,821,846	3,868,363	953,483
Community services - homeless programs	<u>277,180</u>	<u>297,566</u>	<u>(20,386)</u>
Total expenditures	<u>5,470,646</u>	<u>4,726,326</u>	<u>744,320</u>
REVENUES OVER (UNDER) EXPENDITURES	467,788	582,703	(114,915)
FUND BALANCE (CASH)			
Beginning of year	5,900,765	3,540,271	2,360,494
External transfers			
Bond proceeds	45,500,000	-	45,500,000
Special purpose fund	<u>(1,700,000)</u>	<u>-</u>	<u>(1,700,000)</u>
End of year	<u>\$ 50,168,553</u>	<u>\$ 4,122,974</u>	<u>\$ 46,045,579</u>

HARRIS COUNTY REDEVELOPMENT AUTHORITY

NOTES TO SUMMARY BUDGETARY COMPARISON SCHEDULE

1. Budgets and Budgetary Accounting

On April 27, 2022, the Authority adopted a consolidated cash basis budget for all funds. The primary differences between this method and the method used for the modified accrual GAAP based financial statements are that, under the cash basis, revenues are recognized when received and expenditures are recognized when paid.

2. Reconciliation to GAAP Based Financial Statements

Following is a reconciliation of actual financial resources and uses of financial resources on the budgetary basis of accounting to actual revenues, other financing sources and other items and expenditures and other financing uses to the GAAP basis financial statements:

	<u>General Fund</u>	<u>Springwoods 381 Fund</u>
Actual total financing resources – budgetary basis	\$ 11,610,383	\$ -
Adjustment to revenue for deferred revenue	62,109	-
Adjustment for accruals	(6,301,354)	-
Reclassification of tax increment revenue and investment earnings	<u>(4,761,096)</u>	<u>4,761,096</u>
Actual total revenues, other financing sources, and other items – GAAP basis	<u>\$ 610,042</u>	<u>\$ 4,761,096</u>
	<u>General Fund</u>	<u>Springwoods 381 Fund</u>
Actual total uses of financial resources – budgetary basis	\$ 6,564,185	\$ 4,463,495
Adjustment for other accrued liabilities	7,309	-
Adjustment for prior year balances due to other governments	<u>(6,301,354)</u>	<u>-</u>
Actual total expenditures and other financing uses – GAAP basis	<u>\$ 270,140</u>	<u>\$ 4,463,495</u>