

**HARRIS COUNTY
REDEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF HARRIS
COUNTY, TEXAS)**

FINANCIAL REPORT

February 28, 2021

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McGRATH & CO., PLLC

Certified Public Accountants
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Independent Auditor's Report

Board of Directors
Harris County Redevelopment Authority
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Redevelopment Authority, (a component unit of Harris County, Texas) as of and for the year ended February 28, 2021, 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.

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***Board of Directors
Harris County Redevelopment Authority
(a Component Unit of Harris County, Texas)
Harris County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Redevelopment Authority, as of February 28, 2021, 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.

McGuire & Co, P.C.

Houston, Texas
June 24, 2021

Management's Discussion and Analysis

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Using this Annual Report

Within this section of the financial report of Harris County Redevelopment Authority (the "Authority"), the Authority's Board of Directors provides a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended February 28, 2021. 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

Government-Wide Financial Statements

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

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds 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 year.

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

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2021***

Financial Analysis of the Authority as a Whole

The Authority's net position at February 28, 2021, is \$2,947,902. A comparative summary of the Authority's overall financial position, as of February 28, 2021, and February 29, 2020, is as follows:

	2021	2020
Current assets	<u>\$ 13,506,923</u>	<u>\$ 13,456,040</u>
Current liabilities	<u>10,559,021</u>	<u>11,142,031</u>
Total liabilities	<u>10,559,021</u>	<u>11,142,031</u>
Net position		
Unrestricted	<u>2,947,902</u>	<u>2,314,009</u>
Total Net Position	<u>\$ 2,947,902</u>	<u>\$ 2,314,009</u>

The total net position of the Authority increased by \$633,893 during the current fiscal year. A comparative summary of the Authority's *Statement of Activities* for the past two fiscal years is as follows:

	2021	2020
Revenues		
Tax increment revenues	<u>\$ 6,502,428</u>	<u>\$ 6,777,562</u>
Investment income	<u>5,306</u>	<u>20,836</u>
Total revenues	<u>6,507,734</u>	<u>6,798,398</u>
Expenses		
General government	<u>728,713</u>	<u>752,599</u>
Community development	<u>5,145,128</u>	<u>5,394,735</u>
Total expenses	<u>5,873,841</u>	<u>6,147,334</u>
Change in net position	633,893	651,064
Net position, beginning of year	<u>2,314,009</u>	<u>1,662,945</u>
Net position, end of year	<u>\$ 2,947,902</u>	<u>\$ 2,314,009</u>

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2021***

Financial Analysis of the Authority's Funds

General Fund

Fund balance in the Authority's General Fund, as of February 28, 2021, was \$1,848,371. A comparative summary of the financial position for the General Fund as of February 28, 2021, and February 29, 2020, is follows:

	2021	2020
Total assets	<u>\$ 8,439,870</u>	<u>\$ 8,199,267</u>
Total liabilities	\$ 5,492,916	\$ 5,886,203
Total deferred inflows	1,098,583	1,171,346
Total fund balance	<u>1,848,371</u>	<u>1,141,718</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 8,439,870</u>	<u>\$ 8,199,267</u>

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

	2021	2020
Total revenues	\$ 1,176,649	\$ 503,939
Total expenditures	<u>807,736</u>	<u>891,506</u>
Revenues over/(under) expenditures	368,913	(387,567)
Other changes in fund balance	<u>337,740</u>	<u>350,389</u>
Net change in fund balance	<u>\$ 706,653</u>	<u>\$ (37,178)</u>

Springwoods 381 Fund

This fund is used to account for activity related to development within the County; specifically, an agreement between the Authority and Harris County Improvement District 18 (see Note 7). The intent of the agreement is increasing job creation and additional funding sources for public infrastructure improvements within the boundaries associated with the agreement.

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2021***

Fund balance in the Authority's Springwoods 381 Fund as of February 28, 2021, was negative \$5,402,897. The following is a comparative summary of the financial position of the Springwoods 381 Fund as of February 28, 2021, and February 29, 2020:

	2021	2020
Total assets	<u>\$ 5,067,053</u>	<u>\$ 5,256,773</u>
Total liabilities	\$ 5,066,105	\$ 5,255,828
Total deferred inflows	5,403,845	5,606,216
Total fund balance	<u>(5,402,897)</u>	<u>(5,605,271)</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 5,067,053</u>	<u>\$ 5,256,773</u>

A comparative summary of activities for the Springwoods 381 Fund for the current and prior fiscal year is as follows:

	2021	2020
Total revenues	<u>\$ 5,606,219</u>	<u>\$ 5,129,901</u>
Total expenditures	<u>5,066,105</u>	<u>5,255,828</u>
Revenues over/(under) expenditures	540,114	(125,927)
Other changes in fund balance	<u>(337,740)</u>	<u>(350,389)</u>
Net change in fund balance	<u>\$ 202,374</u>	<u>\$ (476,316)</u>

Fund Budgetary Highlights

The Board of Directors adopts a combined annual unappropriated, cash basis budget for the General Fund and Springwoods 381 Fund for each fiscal year. The Board did not amend the budget during the 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 – cash basis was \$212,312 greater than budgeted. The *Budgetary Comparison Schedule* on page 28 of this report provides variance information per financial statement line item.

*Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Management's Discussion and Analysis
February 28, 2021*

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 project 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>2021 Actual</u>	<u>2022 Budget</u>
Total revenues	\$ 11,858,701	\$ 11,266,099
Total expenditures	<u>(11,217,379)</u>	<u>(15,877,482)</u>
Revenues over/(under) expenditures	641,322	(4,611,383)
Other changes in fund balance		<u>55,000,000</u>
Net change in cash	<u>641,322</u>	<u>50,388,617</u>
Beginning cash and investments	<u>1,602,645</u>	<u>2,243,967</u>
Ending cash and investments	<u>\$ 2,243,967</u>	<u>\$ 52,632,584</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.

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Basic Financial Statements

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Statement of Net Position - Governmental Activities
February 28, 2021

Assets

Cash	\$ 171,694
Investments	2,072,273
Tax increment receivable	11,262,956
Total Assets	<u>13,506,923</u>

Liabilities

Due to other governments	10,559,021
Total Liabilities	<u>10,559,021</u>

Net Position

Unrestricted	2,947,902
Total Net Position	<u>\$ 2,947,902</u>

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Statement of Activities - Governmental Activities
For the Year Ended February 28, 2021

	Total	General Government	Economic & Community Development
Expenses			
Management fees	\$ 50,570	\$ -	\$ 50,570
Professional fees	20,687	20,687	
Grants	4,390,624		4,390,624
Administrative	708,026	708,026	
Homeless programs - transfer to Harris County	703,934		703,934
Total Expenses	<u>5,873,841</u>	<u>728,713</u>	<u>5,145,128</u>
General Revenues			
Property tax increment	6,502,428		
Investment earnings	<u>5,306</u>		
Total General Revenues	<u>6,507,734</u>		
Change in net position	633,893		
Net Position			
Beginning of the year	<u>2,314,009</u>		
End of the year	<u>\$ 2,947,902</u>		

***Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Balance Sheet - Governmental Funds
February 28, 2021***

	General Fund	Springwoods 381 Fund	Total
Assets			
Cash	\$ 171,495	\$ 199	\$ 171,694
Investments	2,071,524	749	2,072,273
Property tax increment receivable	5,859,111	5,403,845	11,262,956
Internal balances	337,740	(337,740)	
Total Assets	<u>\$ 8,439,870</u>	<u>\$ 5,067,053</u>	<u>\$ 13,506,923</u>
Liabilities			
Due to other governments	5,492,916	5,066,105	10,559,021
Total Liabilities	<u>5,492,916</u>	<u>5,066,105</u>	<u>10,559,021</u>
Deferred Inflows of Resources			
Deferred property tax increment	1,098,583	5,403,845	6,502,428
Fund Balances			
Unassigned	1,848,371	(5,402,897)	(3,554,526)
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 8,439,870</u>	<u>\$ 5,067,053</u>	<u>\$ 13,506,923</u>

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

Total fund balance - governmental funds	\$ (3,554,526)
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for tax increment revenues and TIRZ payments to the Authority reported as deferred inflows in the fund financial statements.	6,502,428
Total net position - governmental activities	<u>\$ 2,947,902</u>

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended February 28, 2021

	General Fund	Springwoods 381 Fund	Total
Revenues			
Property tax increment	\$ 1,171,346	\$ 5,606,216	\$ 6,777,562
Investment earnings	5,303	3	5,306
Total Revenues	<u>1,176,649</u>	<u>5,606,219</u>	<u>6,782,868</u>
Expenditures			
Current			
General government	390,972	337,740	728,712
Economic development	50,570	4,390,624	4,441,194
Community services - homeless programs	366,194	337,741	703,935
Total Expenditures	<u>807,736</u>	<u>5,066,105</u>	<u>5,873,841</u>
Revenues over expenditures	368,913	540,114	909,027
Other Financing Sources/(Uses)			
Internal transfers	<u>337,740</u>	<u>(337,740)</u>	
Net change in fund balances	706,653	202,374	909,027
Fund Balances			
Beginning of the year	<u>1,141,718</u>	<u>(5,605,271)</u>	<u>(4,463,553)</u>
End of the year	<u>\$ 1,848,371</u>	<u>\$ (5,402,897)</u>	<u>\$ (3,554,526)</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 funds	\$ 909,027
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.	6,502,428
Revenues recognized in the current fiscal year that were deferred inflows in the previous period.	(6,777,562)
Change in Net Position	<u>\$ 633,893</u>

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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 (“GASB”). The following is a summary of the most significant policies:

Creation and Purpose

The Authority is a nonprofit public corporation established on November 29, 2012, with the approval of the Commissioners Court of Harris County, Texas, pursuant to Subchapter D of Chapter 31 of the Texas Transportation Act. The Authority was established to aid, assist and act on behalf of Harris County in the performance of its governmental functions. The Authority is specifically tasked with 1) promoting and encouraging community development and redevelopment, maintaining employment, and commerce on behalf of the County and 2) the administration and implementation of the Greater Houston Tax Increment Reinvestment Zone 24 (“TIRZ 24”) and Chapter 381 Agreements within Harris County.

Currently, the Authority is responsible for a 381 Agreement with Harris County Improvement District 18 (“HC ID 18”) for the master planned community development known as Springwoods Village in north Harris County and has incurred costs related to the creation of the TIRZ 24 which was created to facilitate community development in eastern downtown and the Reliant Park area. See Note 7 for additional information.

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

Reporting Entity

The Authority is a public corporation incorporated in the State of Texas and governed by a seven-member Board of Directors appointed by the Harris County Commissioners’ Court. The Governmental Accounting Standards Board has established the criteria for determining whether an entity is a primary government or a component unit of a primary government.

To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other governments. A component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Under these criteria, the Authority is considered a component unit of Harris County. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Note 1 – Summary of Significant Accounting Policies (continued)

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*.

Fund Financial Statements

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Currently, the Authority uses two funds: the General Fund and the Springwoods 381 Fund, which are both considered major funds. Fund financial statements consist of the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances*.

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 resources were from property tax increments and an internal transfer from the Springwoods 381 Fund. Expenditures include costs associated with the operation of the Authority and TIRZ 24.
- The Springwoods 381 Fund is a special revenue fund used to account for the Authority's Section 381 Agreement with HC ID 18. This fund's primary financial resources are 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 tax increment revenues are recognized as revenue in the year in which the property tax was 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of February 28, 2021, 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, property 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

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:

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.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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

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

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

Unassigned - all other spendable amounts in the General Fund and deficit balances in other funds.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

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 during the fiscal year and were fully secured by federal deposit insurance or collateralized as per its pledged collateral agreement.

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.

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Notes to Basic Financial Statements
February 28, 2021

Note 2 – Deposits and Investments (continued)

Investments (continued)

As of February 28, 2021, the Authority's investments consist of the following:

Type	Fund	Carrying Value	Percentage of Total	Rating	Weighted Average Maturity
TexSTAR	General	<u>\$ 1,033,641</u>	50%	AAAm	48 days
Texas CLASS	General	1,037,883			
	Springwoods 381	749			
		<u>1,038,632</u>	<u>50%</u>	AAAm	54 days
Total		<u><u>\$ 2,072,273</u></u>	<u><u>100%</u></u>		

TexSTAR

The District 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 District's investment in TexSTAR is reported at fair value because TexSTAR uses fair value to report investments. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District's investment in TexSTAR is measured using published fair value per share (level 1 inputs).

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

Texas CLASS

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

Note 2 – Deposits and Investments (continued)

Texas CLASS (continued)

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 (level 1 inputs).

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

Investment Credit and Interest Rate Risk

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

Note 3 – Tax Increment Receivable

Tax increment receivable as of February 28, 2021, consists of the tax increment due from Harris County pursuant to the 381 Agreement with HC ID 18 and the Participation Agreement with Harris County, the City of Houston and TIRZ 24. The receivables are based on the difference between the base year "Market Value" and the subsequent year's "Taxable Value" of the "area" defined by the agreements.

Tax increments receivable as of February 28, 2021, consists of the following:

	General Fund	Springwoods 381 Fund
Property tax increment receivable	\$ 5,859,111	\$ 5,403,845

Harris County Redevelopment Authority
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Notes to Basic Financial Statements
February 28, 2021

Note 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, the Authority liquidated a \$350,389 transfer due from the Springwood 381 Fund to the General fund and recorded an internal balance and transfer of \$337,740 for the portion of the tax increment from HC ID 18 designated for the Authority's costs as presented below:

	Interfund Balances	
	Receivable	Payable
General Fund	\$ 337,740	\$ -
Springwoods 381 Fund		337,740
	<u>\$ 337,740</u>	<u>\$ 337,740</u>

Note 5 – Due to Other Governments

Due to Other Governments as of February 28, 2021, consists of the tax increment due to Harris County Community Services Department pursuant to the Authority's 381 Agreement with HC ID 18 and the Interlocal 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	\$ 4,390,624
Reinvestment Zone No. 24	4,760,528
Harris County Community Services Department	1,407,869
	<u>\$ 10,559,021</u>

Note 6 – 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 7 – Development Agreements

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

On December 12, 2012, the Authority entered into a 381 Agreement (the “381 Agreement”) with Harris County and Harris County Improvement District No. 18 (the “District”), whereby the District will construct the infrastructure necessary to support 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 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. These rebated tax revenues will be used by the District to finance certain major thoroughfare roads and certain park improvements within the District.

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

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 (sixty-five percent) of the tax increment collections attributable to the County’s participation, plus interest. This amount is ultimately remitted to TIRZ 24 for use according to the approved TIRZ “plan” document. Additionally, the 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. 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 (5) board members and exclusive right to appoint one (1) board member without action by the City. The TIRZ 24 board is substantively the same as the Authority’s board of directors.

Note 7 – Development Agreements (continued)

Tax Increment Reinvestment Zone No. 24 (continued)

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, the Zone 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. As of February 28, 2021, Cullen has not incurred any eligible public improvement costs.

On November 1, 2016, the Zone 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. As of February 28, 2021, Urban has not incurred any eligible public improvement costs.

Required Supplementary Information

Harris County Redevelopment Authority
(A Component Unit of Harris County, Texas)
Required Supplementary Information - Budgetary Comparison Schedule -
All Funds - Cash Basis
February 28, 2021

	Original and Final Budget	Actual	Variance
Revenues			
Tax increments	\$ 11,853,395	\$ 11,853,395	\$ -
Investment earnings	4,632	5,306	674
Total Revenues	11,858,027	11,858,701	674
Expenditures			
General government	196,460	24,778	171,682
Economic development	9,750,883	9,710,927	39,956
Community services - homeless programs	1,481,674	1,481,674	-
Total Expenditures	11,429,017	11,217,379	211,638
Net change in cash	<u>\$ 429,010</u>	<u>\$ 641,322</u>	<u>\$ 212,312</u>

Harris County Redevelopment Authority
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Notes to Required Supplementary Information
February 28, 2021

Note 1 – Budgets and Budgetary Accounting

On June 18, 2020, 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

<u>Financial Statement Funds</u>	<u>General Fund</u>	<u>Springwoods 381 Fund</u>
Actual Total financial Resources - budgetary basis	\$ 11,858,701	\$ -
Adjustments		
To adjust revenues for accruals and deferrals	(5,075,833)	
Reclassifications		
Tax increment revenues and some investment earnings are reclassified to Springwoods 381 fund for GAAP reporting	(5,606,219)	5,606,219
Internal transfers are eliminated on the budgetary basis	337,740	
Actual total revenues and other financing sources - GAAP basis	<u>\$ 1,514,389</u>	<u>\$ 5,606,219</u>
Actual total uses of financial resources - budgetary basis	\$ 11,217,379	\$ -
Adjustments		
To adjust expenditures for accruals and deferrals	(5,343,538)	
Reclassifications		
Expenditures related to the disbursement of tax increments received from Harris County are reclassified to the Springwoods 381 Fund for GAAP reporting	(5,066,105)	5,066,105
Internal transfers are eliminated on the budgetary basis		337,740
Actual total expenditures and other financing uses - GAAP basis	<u>\$ 807,736</u>	<u>\$ 5,403,845</u>