

**REINVESTMENT ZONE NO.24
CITY OF HOUSTON, TEXAS
A Component Unit of the City of Houston, Texas**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT
As of September 30, 2022 and
for the period from March 1, 2022 to September 30, 2022**

REINVESTMENT ZONE NO. 24, CITY OF HOUSTON, TEXAS
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Reinvestment Zone No. 24, City of Houston, Texas
Houston, Texas

Opinion

We have audited the financial statements of the governmental activities and the General Fund of Reinvestment Zone No. 24, City of Houston, Texas (the "Zone"), a component unit of the City of Houston, Texas, as of September 30, 2022 and for the period from March 1, 2022 to September 30, 2022, and the related notes to the financial statements, which collectively comprise the Zone'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 the General Fund of the Zone as of September 30, 2022, and the respective changes in financial position thereof for the period from March 1, 2022 to September 30, 2022 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 Zone, 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the March 1, 2022 net position and fund balance have been restated due to a change of estimate in determining eligible incurred expenditures. Our opinion is not modified with respect to this matter.

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 Zone'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.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

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.
- 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 Zone'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 Zone'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 & Brezina, LLP

Houston, Texas
April 14, 2023

REINVESTMENT ZONE NO. 24, CITY OF HOUSTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Using this Annual Report

Within this section of the financial report of the Reinvestment Zone No. 24, City of Houston, Texas, also referred to as the Greater Houston Tax Increment Reinvestment Zone No. 24 (the "Zone", or the "TIRZ"), the Zone's Board of Directors provides a narrative discussion and analysis of the financial activities of the Zone for the period from March 1, 2022 to September 30, 2022. 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 Zone'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 Zone, both long-term and short-term. The Zone'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 Zone'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 Zone as a whole is improving or deteriorating. The *Statement of Activities* reports how the Zone'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 Zone rather than the Zone as a whole, reported using modified accrual accounting. These statements report on the Zone'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 Zone 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 Zone's net position at September 30, 2022 was \$22,401,625. Accounting standards establish three components of net position. The net investment in capital assets component represents the Zone'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.

REINVESTMENT ZONE NO. 24, CITY OF HOUSTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financial Analysis of the Zone as a Whole, continued

Net Position

The total net position at September 30, 2022 was \$22,401,625, a 0.8% decrease from February 28, 2022 (See Table A-1 Below).

Table A-1 Zone's Net Position

	Restated	September 30, 2022	February 28, 2022
Current and other		\$ 23,393,053	\$ 22,582,142
Total assets		<u>\$ 23,393,053</u>	<u>\$ 22,582,142</u>
Current liabilities, as restated		\$ 184,000	\$ _____ -
Total liabilities		<u>\$ 184,000</u>	<u>\$ _____ -</u>
Deferred inflows of financial resources		\$ 807,428	\$ _____ -
Net position		<u>\$ 22,401,625</u>	<u>\$ 22,582,142</u>

The increase in current and other assets at September 30, 2022 when compared to February 28, 2022 is a result of additional tax increments received and investment income that created an increase in cash.

The increase in current liabilities at September 30, 2022 when compared to February 28, 2022 is primarily due to accrued liabilities for engineering services provided during the seven months ended September 30, 2022. The increase in deferred inflows of financial resources at September 30, 2022 when compared to February 28, 2022 are due to overpayment of tax increments during the seven months ended September 30, 2022.

Changes in Net Position

The change in financial position for the period from March 1, 2022 to September 30, 2022 was a decrease of \$180,517. When compared the period from March 1, 2022 to September 30, 2022 to the year ended February 28, 2022, total operating revenues decreased by 97.6%, or \$4,171,871, and total operating expenses increased by 100%, or \$283,978. Operating income decreased by \$4,455,849 (See Table A-2.)

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

	Restated	Period ended September 30 2022	Year ended February 28 2022
Operating revenues:			
Property tax increments	\$ -	\$ 4,267,519	
Investment earnings	<u>103,483</u>	<u>7,835</u>	
Total operating revenues	<u>103,483</u>	<u>4,275,354</u>	
Operating expenses:			
Grant expenses – economic development	100,000	-	
General and administrative expenses	<u>184,000</u>	<u>22</u>	
Total operating expenses	<u>284,000</u>	<u>22</u>	
Change in net position	(180,517)	4,275,332	
Net position at beginning of year	<u>22,582,142</u>	<u>18,306,810</u>	
Net position at end of year	<u>\$ 22,401,625</u>	<u>\$ 22,582,142</u>	

REINVESTMENT ZONE NO. 24, CITY OF HOUSTON, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financial Analysis of the Zone as a Whole, continued

Changes in Net Position, continued

On April 7, 2022, the Board of Directors adopted a resolution to change the Zone's fiscal year end from February 28th to September 30th of each year. As a result, the decrease in operating revenues for the period from March 1, 2022 to September 30, 2022 is due primarily to decreased property tax increment revenue due to the timing of property tax levies.

Operating expenses increased during the period from March 1, 2022 to September 28, 2022 compared to the year ending February 28, 2022 due to costs incurred for an economic development grant for affordable housing and engineering services.

Financial Analysis of the Zone's General Fund

Fund Balance

The total fund balance of the Zone's General Fund at September 30, 2022 was \$22,401,625, a 22.3% increase from February 28, 2022 (See Table A-3 Below).

Table A-3 Fund Balance – General Fund

	<u>September 30, 2022</u>	<u>Restated February 28, 2022</u>
Total assets	<u>\$ 23,393,053</u>	<u>\$ 22,582,142</u>
Total liabilities	\$ 184,000	\$ -
Total deferred inflows	807,428	4,267,519
Total fund balance	<u>22,401,625</u>	<u>18,314,623</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 23,393,053</u>	<u>\$ 22,582,142</u>

The increase in current and other assets at September 30, 2022 when compared to February 28, 2022 is a result of additional tax increments received and investment income that created an increase in cash.

The increase in current liabilities at September 30, 2022 when compared to February 28, 2022 is primarily due to accrued liabilities for engineering services provided during the seven months ended September 30, 2022. The decrease in deferred inflows of financial resources at September 30, 2022 when compared to February 28, 2022 is due to the timing of tax assessments, in conjunction with an overpayment of tax increments during the seven months ended September 30, 2022.

Changes in Fund Balance

The increase in fund balance for the period from March 1, 2022 to September 30, 2022 when compared to the year ended February 28, 2022 was \$4,087,002. Total operating revenues decreased by 8.3%, or \$397,361, and total operating expenses increased by 100%, or \$283,978. Operating income decreased by \$681,339 (See Table A-4).

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

	<u>Period ended September 30 2022</u>	<u>Year ended February 28 2022</u>
Total revenues	\$ 4,371,002	\$ 4,768,363
Total expenditures	284,000	22
Revenues over expenditures	<u>4,087,002</u>	<u>4,768,341</u>
Net change in fund balance	<u>\$ 4,087,002</u>	<u>\$ 4,768,341</u>

The decrease in total revenues for the period from March 1, 2022 to September 30, 2022 compared to the year ended February 28, 2022 is due primarily to the timing of property tax levies.

REINVESTMENT ZONE NO. 24, CITY OF HOUSTON, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financial Analysis of the Zone's General Fund, continued

Fund Balance, continued

Total expenditures increased during the period from March 1, 2022 to September 30, 2022 compared to the year ended February 28, 2022 due to costs incurred for an economic development grant for affordable housing and engineering services.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated cash-basis budget for the General 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. For the current fiscal period, from March 1, 2022 to September 30, 2022, actual net change in fund balance was \$1,828,005 greater than budgeted. This difference is primarily due to \$928,710 in budgeted grants and general expenditures that were not made during the current year in addition to \$807,428 of additional tax increment revenue received during the period. The *Summary Budgetary Comparison Schedule* on page 18 of this report provides variance information per financial statement line item.

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 Zone, most notably tax increment revenues. A comparison of next year's cash basis budget to current year cash basis actual amounts for the General Fund is as follows:

	Period Ended September 30 2022 Actual	Year Ending September 30 2023 Budgeted
Total revenues	\$ 5,178,430	\$ 6,061,052
Total expenditures	<u>100,000</u>	<u>1,861,076</u>
Revenues over (under) expenditures	5,078,430	4,199,976
Beginning cash on hand and investments	18,314,623	23,393,053
Transfers to Authority	<u>-</u>	<u>(3,768,695)</u>
Ending cash on hand and investments	<u><u>\$ 23,393,053</u></u>	<u><u>\$ 23,824,334</u></u>

Contacting the Zone's Financial Management

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

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2022

	Total
ASSETS	
Cash	\$ 9,996,203
Investments, at fair value	<u>13,396,850</u>
Total assets	<u>\$ 23,393,053</u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable and accrued liabilities	<u>\$ 184,000</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property tax increment	<u>\$ 807,428</u>
NET POSITION	
Unrestricted	<u>\$ 22,401,625</u>
Total net position	<u>\$ 22,401,625</u>

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE PERIOD FROM MARCH 1, 2022 TO SEPTEMBER 30, 2022

	Total
EXPENSES	
Administrative	\$ 184,000
Grants - economic development	<u>100,000</u>
 Total expenses	 <u>284,000</u>
GENERAL REVENUES	
Investment earnings	<u>103,483</u>
 Total general revenues	 <u>103,483</u>
 Change in net position	 (180,517)
 Net position, beginning of year, as restated	 <u>22,582,142</u>
 Net position, end of year	 <u>\$ 22,401,625</u>

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2022

	General Fund
ASSETS	
Cash	\$ 9,996,203
Investments, at fair value	<u>13,396,850</u>
Total assets	<u>\$ 23,393,053</u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>\$ 184,000</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property tax increment due from other governments	<u>\$ 807,428</u>
FUND BALANCE	
Assigned	\$ 4,900,000
Unassigned	<u>17,501,625</u>
Total fund balance	<u>\$ 22,401,625</u>

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE PERIOD FROM MARCH 1, 2022 TO SEPTEMBER 30, 2022

	General Fund
REVENUES	
Tax increments	\$ 4,267,519
Investment earnings	<u>103,483</u>
Total revenues	<u>4,371,002</u>
EXPENDITURES	
General government	184,000
Grants - economic development	<u>100,000</u>
Total expenditures	<u>284,000</u>
Revenues over expenditures	4,087,002
FUND BALANCES	
Beginning of year, as restated	<u>18,314,623</u>
End of year	<u>\$ 22,401,625</u>
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	
Revenues over expenditures - total governmental fund - General Fund	\$ 4,087,002
Revenues recognized in the current fiscal year that were deferred inflows in the previous period	<u>(4,267,519)</u>
Change in net position - governmental activities	<u>\$ (180,517)</u>

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

1. Organization and Nature of Operations

The Zone was created on December 12, 2012, by Ordinance No. 2012-1048, pursuant to Chapter 431 of the Texas Transportation Act., as amended, for the purposes of development and redevelopment in the areas of the City generally known as the (1) eastern end of the central business district and (2) the area around NRG (formerly Reliant) Stadium. On August 26, 2015, an additional area consisting of land southeast of downtown and north of Interstate 45 was annexed by the Zone by Ordinance No. 2015-800. Additionally, the Harris County Redevelopment Authority (the "Authority") was established to aid, assist and act on behalf of Harris County in the performance of its and the Zone's governmental functions. The Authority is specifically tasked with 1) promoting and encouraging and maintaining employment, commerce and economic development programs on behalf of the County and 2) the administration and implementation of the Zone and Chapter 381 economic development agreements within Harris County.

The Authority has contracted with consultants, on behalf of the Zone, to provide services to operate and administer the affairs of the Zone and the Authority. The Zone has no employees, related payroll or pension costs. The Zone'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 Zone is a component unit of the City of Houston, Texas for financial reporting purposes; the Zone does not have any component units. Pursuant Chapter 391, of the Texas Local Government Code the Zone is a nonprofit public corporation in the State of Texas and governed by an appointed seven-member board.

The Zone 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 Zone's overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for the Zone's governmental activities.
- Fund financial statements focusing on the major funds.

Government-Wide Financial Statements

Government-wide financial statements display information about the Zone as a whole. These statements focus on the sustainability of the Zone 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 Zone'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.

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fund Financial Statements

Financial statements of the Zone 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. Currently, the Zone uses only a General Fund to account for its operations. Expenditures include costs associated with the creation and operation of the Zone. Fund financial statements are the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balance*.

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 Zone 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 Zone maintains demand deposits with financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC").

Investments

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

Net Position

Governmental accounting standards establishes the following three components of net position:

Net investment in capital assets – represents the Zone's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. The Zone 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 Zone does not have any restricted resources.

Unrestricted – resources not included in the other components.

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 Zone 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 Zone 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 Zone. 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.

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. On January 28, 2021, the Board of Directors approved the allocation of \$5,000,000 in support affordable housing activities within Harris County. Funding will be made available for eligible costs associated with infrastructure development of affordable housing including developments where, at minimum, a portion of the development includes 25% of the units to be made available at rates consistent with income limits, rent maximums, and purchase price maximums as established by the U.S. Department of Housing and Urban Development. At September 30, 2022, \$4,900,000 of funds are assigned to support affordable housing activities.

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 Zone 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 Zone by the Authority 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.

Deferred Inflows and Outflows of Resources

A deferred inflow of financial resources is the acquisition of resources or overpayment in one period that are applicable to a future period, while a deferred outflow of financial resources is the consumption or underpayment of financial resources in one period that are 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 the fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Income Taxes

No income tax provision has been included in the financial statements since the Zone 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.

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

The Zone 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, 2022, 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 Zone to concentrations of credit risk consist principally of cash and investments. The Zone 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, 2022, all of the Zone'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 Zone which protects against credit risk of the financial institution holding the investments. Balances at these institutions periodically exceed FDIC limits; however, the Zone 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 Zone'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 Zone 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 the Texas Municipal League, an intergovernmental risk pool.

Recently Issued Accounting Pronouncements

GASB Statement No. 92, *Omnibus 2020* – (“GASB 92”), enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 92 will be adopted by the Zone in fiscal year 2023 and the impact has not yet been determined.

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

3. Prior Period Adjustment

Effective March 1, 2022, the Zone made a prior period adjustment to reverse historical accruals made under an economic development agreement reported of \$106,740 as of February 28, 2022. Total impact of the prior period adjustment reduced due to other governments, net position and fund balance as of February 28, 2022 on the statement of net position – governmental activities and balance sheet – governmental fund. The adjustment was made due to a change of estimate in determining eligible incurred expenditures in accordance with an economic development grant for affordable housing.

4. Investments

The Board of Directors of the Zone 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.

TexSTAR

The Zone 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 Zone'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 Zone 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 UMB Bank N.A. as the custodian.

The Zone'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 Zone'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 Zone's investments at September 30, 2022:

	Carrying Value	Percentage of Total	Rating	Weighted Average Maturity
TexSTAR	\$ 3,857,110	28.8%	AAAm	16 days
Texas CLASS	<u>9,539.740</u>	<u>71.2%</u>	AAAm	38 days
Total investments	\$ <u>13,396,850</u>	<u>100.0%</u>		

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

4. Investments, continued

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 hierachal 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.

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 Zone has established a framework to consistently measure the fair value of the Zone'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 Zone'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, 2022, the Zone valued the government investment at net asset value provided by the custodians.

5. Liquidity

The Zone 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 Zone'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. Economic Development Agreements

Tripartite Operating Agreement

On June 13, 2014, the Zone's board approved an Operating (Tripartite) Agreement (the "Tripartite Agreement") with the Harris County Redevelopment Authority (the "Authority") and the City of Houston, Texas (the "City"). The Tripartite Agreement established the Authority's responsibility to manage and account for the operations of Zone, as explained in Note 1. The Tripartite agreement was amended in September 2022 to increase the City's participation from 5% to 70% of the City tax increment.

Interlocal Participation Agreement

On June 13, 2014, the Zone entered into an Interlocal (Participation) Agreement (the "Participation Agreement") with the Authority, the City, and Harris County, Texas (the "County") that specified the City and County's level of participation in community development activities within Zone. The Participation Agreement also established a 2014 base year for determining the change in taxable values of property located within Zone as it related 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. This amount is ultimately remitted to the Zone for use according to the Project Plan and Reinvestment Zone Financing Plan (the "Project Plan"). Additionally, the Participation 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.

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

6. Economic Development Agreements, continued

Interlocal Participation Agreement, continued

These additional amounts are exclusive of the Project Plan and are not subject to section 311 of the Texas Local Government Code. The Participation Agreement was amended in September 2022 to increase the City's participation from 5% to 75% of the City's tax increment.

The Participation Agreement also stipulates the Zone board of directors are appointed by the City of Houston, with the County having continued and unequivocal right to recommend nomination and appointment of five board members and exclusive right to appoint one board member without action by the City. The Zone board is substantively the same as the Authority's board of directors.

Buffalo Pointe Reimbursement Agreement

On November 20, 2014, the City, the Authority and the Zone entered into a reimbursement agreement to provide up to \$3,500,000 in reimbursements to the City for eligible costs paid for public improvements in the development area known as Buffalo Pointe. Reimbursement payments are limited to the tax increments derived from the boundaries of the area to be developed and are further limited in respect to the total amount of eligible costs that may be reimbursed each year under the agreement. No eligible expenses have been incurred relating to the Buffalo Pointe reimbursement agreement at September 30, 2022 or February 28, 2022.

Cullen Gulf Freeway, LLC Reimbursement Agreement

On November 1, 2016, the Zone and the Authority entered into a reimbursement agreement with Cullen Gulf Freeway, LLC. ("Cullen") that provides for the reimbursement of eligible public improvement costs up to \$3,061,330, subject to a target value increase in tax increments on the area to be developed of \$30,000,000. Reimbursement payments are limited to the tax increments derived from the boundaries of the area to be developed and are further limited in respect to the total amount of eligible costs that may be reimbursed each year under the agreement. On January 28, 2021, the development agreement was amended to extend the "target date" for completion of all public improvements from January 1, 2020 to January 1, 2023. No eligible expenses have been incurred relating to the Cullen reimbursement agreement at September 30, 2022 or February 28, 2022.

Urban Intown, LLC Reimbursement Agreement

On November 1, 2016, the Zone and the Authority entered into a development agreement with Urban Intownhomes, LLC. ("Urban") that provides for the reimbursement of eligible public improvement costs up to \$330,000, subject to a target value increase in tax increments on the area to be developed in the amount of \$12,000,000. Reimbursement payments are limited in respect to the total amount of eligible costs that may be reimbursed each year under the agreement. On January 28, 2021, the development agreement was amended to (i) permit the Zone to make reimbursements under the agreement from any lawful source, (ii) to extend the "target date" for completion of all public improvements from January 1, 2020 to January 30, 2022 and (iii) to reduce the target value increase in tax increments on the area to be developed to \$8,000,000. No eligible expenses have been incurred relating to the Urban reimbursement agreement at September 30, 2022 or February 28, 2022. Subsequent to September 30, 2022, \$330,000 of eligible costs, representing the maximum amount permissible for reimbursement under the agreement, were incurred by the Zone.

7. Subsequent Events

The Zone has evaluated all subsequent events through April 14, 2023, which is the date the financial statements were issued, and has concluded that there are no significant events to be reported.

**REQUIRED SUPPLEMENTARY FINANCIAL SCHEDULES AND INFORMATION
(Unaudited)**

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS
SUMMARY BUDGETARY COMPARISON SCHEDULE - CASH BASIS
FOR THE PERIOD FROM MARCH 1, 2022 TO SEPTEMBER 30, 2022

	Original and Final Budget	Actual	Variance
REVENUES			
Property tax increments	\$ 4,267,519	\$ 5,074,947	\$ 807,428
Investment earnings	11,616	103,483	91,867
Total revenues	4,279,135	5,178,430	899,295
EXPENDITURES			
General government	422,917	-	(422,917)
Grants - economic development	605,793	100,000	(505,793)
Total expenditures	1,028,710	100,000	(928,710)
REVENUES OVER (UNDER) EXPENDITURES	3,250,425	5,078,430	1,828,005
FUND BALANCE (CASH)			
Beginning of year	18,020,987	18,314,623	293,636
Transfers to Authority	(5,000,000)	-	5,000,000
End of year	\$ 16,271,412	\$ 23,393,053	\$ 7,121,641

REINVESTMENT ZONE NO.24, CITY OF HOUSTON, TEXAS
NOTES TO SUMMARY BUDGETARY COMPARISON SCHEDULE

1. Budgets and Budgetary Accounting

On April 7, 2022, the Zone adopted a cash basis budget for the General Fund. 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>
Actual total financing resources – budgetary basis	\$ 5,178,430
Adjustment to revenue for deferred revenue	<u>(807,428)</u>
Actual total revenues, other financing sources, and other items – GAAP basis	<u>\$ 4,371,002</u>
Actual total uses of financial resources – budgetary basis	\$ 100,000
Adjustments to expenditures for accrued economic development costs	<u>184,000</u>
Actual total expenditures and other financing uses – GAAP basis	<u>\$ 284,000</u>