



# **Harris County Improvement District No. 1**

## **FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**June 30, 2021**



|   | Page |
|---|------|
| <b>REPORT</b>   |      |
| Independent Auditors' Report .....  | 1    |
| Management's Discussion and Analysis (Unaudited) .....  | 3    |
| <b>BASIC FINANCIAL STATEMENTS</b>   |      |
| Governmental-wide Financial Statements:   |      |
| Statement of Net Position .....   | 10   |
| Statement of Activities .....   | 11   |
| Fund Financial Statements:  |      |
| Balance Sheet – Governmental Funds .....  | 12   |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement<br>of Net Position .....  | 13   |
| Statement of Revenues, Expenditures and Changes in Fund Balances -<br>Governmental Funds .....  | 14   |
| Reconciliation of the Statement of Revenues, Expenditures and Changes<br>in Fund Balances – Governmental Funds to the Statement of Activities ..... | 15   |
| Statement of Fiduciary Net Position .....   | 16   |
| Statement of Changes in Fiduciary Net Position .....  | 17   |
| Notes to Basic Financial Statements .....   | 18   |
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b>   |      |
| Schedule of Revenues, Expenditures, and Change in Fund<br>Balance – Budget to Actual (Unaudited) .....  |      |
|   | 31   |
| Notes to Required Supplementary Information .....   | 32   |



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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Harris County Improvement District No. 1  
Houston, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of Harris County Improvement District No. 1, (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **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.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these 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 financial statements are free from 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 auditors' 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 policies 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 and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund, and the aggregate remaining fund information of the District as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the schedule of revenues, expenditures and changes in fund balance – budget to actual on page 31 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 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 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.

*Carly Riggs & Ingram, L.L.C.*

Houston, Texas  
October 19, 2021

# Harris County Improvement District No. 1 Management's Discussion and Analysis (Unaudited)

## GENERAL

This Management's Discussion and Analysis of Harris County Improvement District No. 1 (the District), provides an overview of the District's financial performance including comparative data for the year ended June 30, 2021 with the year ended June 30, 2020 and a brief explanation for significant changes between fiscal years. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and current known facts, please read in conjunction with the District's basic financial statements and the notes to the financial statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, and deferred outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator regarding the financial position of the District. Other factors that are not included in the financial statements, such as increased tax base in the District's boundaries, should be considered in evaluating the condition of the District's overall financial position.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

## FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds.** The District maintains three individual governmental funds. Information is presented separately in the *Balance Sheet - Governmental Fund* and in the *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund* for the General Fund, the Debt Service Fund, and the Capital Projects Fund, all of which are considered to be major funds.

## Harris County Improvement District No. 1 Management's Discussion and Analysis (Unaudited)

Fund financial statements are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it may be useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the *Balance Sheet - Governmental Fund* and the *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for the government-wide financial statements, only in more detail. The District maintains one type of fiduciary fund. The Custodial Fund reports resources held by the District in a custodial capacity for individuals.

### NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

In the government-wide statements, net position is equal to the difference between assets and deferred outflows and liabilities. As previously noted, net position may serve over time as a useful indicator of a government's financial position. The District's net position at June 30, 2021, was \$1,434,848.

Net position is categorized based on the availability to provide financial resources for the District. Net position that is "Net Investment in capital assets" represent the District's capital assets, net of accumulated depreciation, less the outstanding balance of debt, excluding unspent bond proceeds, used to acquire those capital assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. "Restricted" net position represents amounts that are restricted for future debt service requirements. "Unrestricted" net position represents amounts available to meet the District's future obligations.

## Harris County Improvement District No. 1 Management's Discussion and Analysis (Unaudited)

At June 30, 2021, the District had total assets of \$35,944,075 and deferred outflows of \$43,798. Of this amount, \$12,408,359 consisted of cash and cash equivalents and \$15,002,937 of capital assets, net of depreciation. Total liabilities were \$34,553,025 as of June 30, 2021, which consisted of \$31,152,067 of long-term liabilities and accrued interest. The long-term debt consists of bonds issued to pay for construction projects within boundaries of the District. The other liabilities mainly consists of accounts payable, retainage payable and due to other governments. A comparative summary of the District's overall financial position, as of June 30, 2021 and 2020, is as follows:

| <i>June 30,</i>                       | <b>2021</b>         | <b>2020</b>         |
|---------------------------------------|---------------------|---------------------|
| <b>Assets</b>                         |                     |                     |
| Current and other assets              | \$ 20,941,138       | \$ 22,931,234       |
| Capital assets, net of depreciation   | 15,002,937          | 15,879,530          |
| <b>Total assets</b>                   | <b>35,944,075</b>   | <b>38,810,764</b>   |
| <b>Deferred Outflows of Resources</b> |                     |                     |
| Deferred charge on refunding          | 43,798              | 63,934              |
| <b>Liabilities</b>                    |                     |                     |
| Other liabilities                     | 852,150             | 1,001,317           |
| Long-term liabilities                 | 33,700,875          | 36,491,301          |
| <b>Total liabilities</b>              | <b>34,553,025</b>   | <b>37,492,618</b>   |
| <b>Net Position</b>                   |                     |                     |
| Net investment in capital assets      | 2,281,538           | 3,158,131           |
| Restricted for debt service           | 3,046,519           | 3,335,134           |
| Unrestricted                          | (3,893,209)         | (5,111,185)         |
| <b>Total net position</b>             | <b>\$ 1,434,848</b> | <b>\$ 1,382,080</b> |

## Harris County Improvement District No. 1 Management's Discussion and Analysis (Unaudited)

The total net position of the District increased by \$52,768. During the year ended June 30, 2021, net investment in capital assets decreased by \$876,593 mainly due to the depreciation for the fiscal year 2021, restricted net position decreased by \$288,615, and unrestricted net deficit decreased by \$1,217,976 due to spending on capital projects. A comparative summary of the District's statement of activities for the past two years is as follows:

| <i>For the years ended June 30,</i>              | <b>2021</b>  | <b>2020</b>  |
|--|--------------|--------------|
| <b>Revenues</b>                                  |              |              |
| <b>Program revenues:</b>                         |              |              |
| Charges for services                             | \$ 1,378,142 | \$ 1,437,022 |
| Capital grants                                   | -            | 2,092,536    |
| <b>General Revenues:</b>                         |              |              |
| Property taxes                                   | 9,464,929    | 9,015,099    |
| Unrestricted investment earnings                 | 11,083       | 89,293       |
| Total revenues                                   | 10,854,154   | 12,633,950   |
| <b>Expenses</b>                                  |              |              |
| General and administrative                       | 3,373,317    | 3,434,670    |
| Traffic control                                  | 1,982,653    | 2,162,253    |
| Maintenance and beautification                   | 2,748,414    | 2,462,163    |
| Planning and engineering                         | 14,742       | 50,936       |
| Marketing and communications                     | 412,961      | 544,803      |
| Interest on long-term debt                       | 913,274      | 984,660      |
| Economic development                             | 30,289       | 41,199       |
| Construction on behalf of the<br>City of Houston | 1,325,736    | 2,115,317    |
| Transfer to other governments                    | -            | 2,092,536    |
| Total expenses                                   | 10,801,386   | 13,888,537   |
| Change in net position                           | 52,768       | (1,254,587)  |
| Net position - beginning of year                 | 1,382,080    | 2,636,667    |
| Net position - end of year                       | \$ 1,434,848 | \$ 1,382,080 |

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.



## Harris County Improvement District No. 1 Management's Discussion and Analysis (Unaudited)

As of June 30, 2021, the District's governmental funds reported combined ending fund balances of \$13,036,219, a decrease of \$1,737,423 in comparison with the prior year. This is due to spending on capital projects including the reconstruction of Post Oak Lane, pedestrian pylons for Post Oak Boulevard, other lighting projects for Post Oak Boulevard and West Loop design.

The unassigned portion of fund balance is \$6,021,336 and is available for spending at the government's discretion. The remainder of fund balance is not available for spending because it has already been restricted for capital projects of \$3,452,983, debt service of \$3,344,481, or is classified as nonspendable.

The following is a summary of changes in fund balances for the prior two fiscal years:

| <i>For the years ended June 30,</i> | <b>2021</b>          | <b>Increase<br/>(Decrease)</b> | <b>2020</b>          | <b>Increase<br/>(Decrease)</b> | <b>2019</b>          |
|-------------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| General Fund                        | \$ 6,238,755         | \$ (142,151)                   | \$ 6,380,906         | \$ (493,513)                   | \$ 6,874,419         |
| Capital Projects Fund               | 3,452,983            | (1,409,512)                    | 4,862,495            | (3,423,642)                    | 8,286,137            |
| Debt Service Fund                   | 3,344,481            | (185,760)                      | 3,530,241            | (99,503)                       | 3,629,744            |
|                                     | <b>\$ 13,036,219</b> | <b>\$ (1,737,423)</b>          | <b>\$ 14,773,642</b> | <b>\$ (4,016,658)</b>          | <b>\$ 18,790,300</b> |

The General Fund is the chief operating fund of the District. Fund balance in the General Fund decreased by \$142,151 during the current fiscal year. This decrease was due to operating expenditures exceeding ongoing revenues. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. At the end of the current fiscal year, the unassigned portion of fund balance of the General Fund was \$6,021,336, while expenditures for the year were \$7,581,092.

The Debt Service Fund has a total fund balance of \$3,344,481, all of which is restricted for the payment of debt service. The decrease in fund balance during the current year in the Debt Service Fund was \$185,760.

The Capital Projects Fund has total fund balance of \$3,452,983. The decrease in the fund balance during the current year in the Capital Projects Fund was \$1,409,512. The decrease is primarily related to capital project spending for West Loop design, Post Oak Boulevard lighting, and South Post Oak Lane.

### GENERAL FUND BUDGETARY HIGHLIGHTS

There were no budget amendments during the year. The District anticipated an increase to fund balance of \$0, while the actual change resulted in a decrease to fund balance of \$142,151. Variances between budget and actual were due primarily to budget variances in spending related to maintenance and beautification projects. As well as traffic and public safety programs.

## Harris County Improvement District No. 1 Management’s Discussion and Analysis (Unaudited)

### DEBT ADMINISTRATION

At June 30, 2021 and 2020, the District had total bonded debt outstanding as shown below:

| Series      | 2021                 | 2020                 |
|-------------|----------------------|----------------------|
| Series 2013 | \$ 3,135,000         | \$ 4,125,000         |
| Series 2015 | 14,080,000           | 15,355,000           |
| Series 2016 | 6,275,000            | 6,760,000            |
| Series 2018 | 10,000,000           | 10,000,000           |
|             | <b>\$ 33,490,000</b> | <b>\$ 36,240,000</b> |

### ECONOMIC FACTOR’S AND NEXT YEAR’S BUDGETS AND RATES

#### OFFICE SPACE

Uptown Houston is one of the largest business districts outside a historic core in the United States. It is the 17<sup>th</sup> largest business district in the United States: comparable to Denver and Cleveland. With over 29 million square feet of total office space in its market area, Uptown accounts for over 13.7% of Houston MSA’s total ‘Class A’ office space with over 20.5 million square feet. There are 127,000 office employees in the Uptown market area. At the end of the second quarter, 2021 class A office space was 73.2% leased, similar to Houston’s total Class A office market with occupancy at 75.2%.

The 2020 certified values for the office sector were up slightly from the previous year. As a result of the COVID-19 pandemic, many employees were forced to work from home. In Q2 2021, the vacancy rate for the Uptown area was 24% while for Houston it was 21%. The ‘back-to-work’ occupancy rate for the area is greater than 40% which was the third highest in the nation (Kastle Systems). There were no known significant lease breaks in the area. Companies typically have leases with several years of term. Some places on sublease markets continued to fill (BHP is close to fully leased). While it is important to note the effects of the pandemic in the Zone, it is also telling that development continues to occur. Zadok constructed a 112,000 SF mixed-use development within TIRZ boundaries which included 68,000 SF of office. It delivered in Q2 2021. The Uptown market welcomed Park Place Tower, a 210,000 SF office tower. Also, in the market area, 4411 San Felipe, an 80,000 SF officer tower, began construction in Q2 of 2021.

#### RETAIL

Uptown continues to be synonymous with high-end shopping and is known as a world-renowned center for retail. Ad valorem values for the retail sector for 2020 were comparable to that of the previous year. Though sales were impacted during the height of the COVID-19 pandemic, store closings were negligible. Retail was over 96% leased as of Q2 2021. This market maintained as The Galleria is the fourth largest retail center in the United States. Within the Uptown TIRZ, Zadok’s mixed-use development delivered 44,000 SF of retail space in Q2 2021. Dinerstein’s project, Aspire Post Oak, with retail at ground level, as well as other smaller projects will deliver 25,000 SF in Q4 2021. Uptown Park continues extensive modernization of their retail center bringing in both new retail stores as well as

## **Harris County Improvement District No. 1 Management's Discussion and Analysis (Unaudited)**

restaurants. In the Uptown market area, Park Place Tower added an additional 20,000 SF to the market. 4411 San Felipe construction began in Q2 2021 and will have 15,000 SF.

### **HOTEL**

Uptown now has 39 business class/leisure hotels in the area, offering almost 8,400 rooms for guests. Landry's 36 story mixed-use development, The Post Oak, recently received Texas' only AAA Double Five-Diamond hotel rating. In the market area, American Liberty Hospitality delivered a dual-branded Staybridge Suites/ Holiday Inn Express with 319 rooms in Q1 of 2021.

The area's RevPAR (revenues per available room) were affected by COVID-19 as all hotels city-wide, but in a recovery trend. Uptown RevPAR for Q2 2021 was \$75.04 in comparison to the Houston Central Business District at \$60.77. The RevPAR for Houston city-wide was \$52.77. Occupancy for Uptown Houston 2021 Q2, also recovering from the effects of COVID-19, was 52.41%, compared to the Houston Central Business District at 38.03% and the City of Houston at 56.98%.

### **RESIDENTIAL**

In 2020, Uptown market saw the residential project, Gables Westcreek, delivered (302 apartment units). Now under construction is Bowen River Oaks, a 400 units project by Lennar projected to deliver by end of 2021. Within the TIRZ boundaries, the signature Aspire Post Oak apartments by Dinerstein (388 units) is under construction and scheduled to be delivered in Q4 of 2021. Uptown Houston is one of the most prestigious and desirable areas to live. The Hawthorne, an upscale condominium tower in the Uptown market, began construction in Q3 of 2021. The Hallmark Uptown Oaks, a proposed 33 story, 113 unit luxury apartment for independent living, was announced and expected to begin construction in Q2 of 2022. Finally, Tanglewood Corporation announced a luxurious 33 story condominium tower, a \$300 million project, to begin construction in 2022.

The economic outlook is stable in Uptown. As we are navigating through which we hope to be the worst of the pandemic, we are optimistic about the future. There continues to be new development in the area and property values have maintained year over year. While economic factors (property values, vacancy rates, future development, etc.) impact the size of debt issues, management takes a conservative approach to ensure that adequate resources are available to support the projects within the District.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Harris County Improvement District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 1980 Post Oak Boulevard #1700, Houston, Texas 77056.

**Harris County Improvement District No. 1**  
**Statement of Net Position**

*June 30, 2021*

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**Assets**

|                                     |               |
|-------------------------------------|---------------|
| Cash and cash equivalents           | \$ 12,408,359 |
| Property taxes receivable           | 898,201       |
| Due from other governments          | 7,392,457     |
| Other receivables                   | 24,702        |
| Prepaid expenses                    | 217,419       |
| Capital assets, net of depreciation | 15,002,937    |

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Total assets 35,944,075

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**Deferred Outflows of Resources**

Deferred charge on refunding 43,798

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**Liabilities**

|  |            |
|--|------------|
| Accounts payable and other liabilities | 423,993    |
| Due to other governments               | 130,195    |
| Accrued interest                       | 297,962    |
| Long-term liabilities:                 |            |
| Due within one year                    | 2,846,770  |
| Due in more than one year              | 30,854,105 |

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Total liabilities 34,553,025

**Net Position**

|                                  |             |
|----------------------------------|-------------|
| Net investment in capital assets | 2,281,538   |
| Restricted for debt service      | 3,046,519   |
| Unrestricted                     | (3,893,209) |

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Total net position \$ 1,434,848

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

## Harris County Improvement District No. 1 Statement of Activities

| <i>For the year ended June 30, 2021</i>       | Expenses          | Program Revenue<br>Charges for<br>Services | Net (Expense) Revenues<br>and changes in Net<br>Position |
|---|-------------------|--|--|
| General and administrative                    | \$ 3,373,317      | \$ 1,324,170                               | \$ (2,049,147)   |
| Traffic control                               | 1,982,653         | 53,972                                     | (1,928,681)  |
| Maintenance and beautification                | 2,748,414         | -  | (2,748,414)  |
| Planning and engineering                      | 14,742            | -  | (14,742)   |
| Marketing and communication                   | 412,961           | -  | (412,961)  |
| Interest on long-term debt                    | 913,274           | -  | (913,274)  |
| Economic development                          | 30,289            | -  | (30,289)   |
| Construction on behalf of the City of Houston | 1,325,736         | -  | (1,325,736)  |
| <b>Totals</b>                                 | <b>10,801,386</b> | <b>1,378,142</b>                           | <b>(9,423,244)</b>                                       |
| <b>General revenues</b>                       |                   |  |  |
| Property taxes                                |                   |  | 9,464,929  |
| Unrestricted investment earnings              |                   |  | 11,083   |
| <b>Total general revenues</b>                 |                   |  | <b>9,476,012</b>   |
| Change in net position                        |                   |  | 52,768   |
| Net position - beginning of year              |                   |  | 1,382,080  |
| <b>Net position - end of year</b>             |                   |  | <b>\$ 1,434,848</b>                                      |

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

## Harris County Improvement District No. 1 Balance Sheet — Governmental Funds

| <i>June 30, 2021</i>  | General<br>Fund     | Capital<br>Projects | Debt<br>Service      | Total<br>Governmental<br>Funds |
|---|---------------------|---------------------|----------------------|--------------------------------|
| <b>Assets</b>   |                     |                     |                      |                                |
| Cash and cash equivalents   | \$ 5,840,781        | \$ 3,895,942        | \$ 2,671,636         | \$ 12,408,359                  |
| Taxes receivable  | 606,765             | -                   | 291,436              | 898,201                        |
| Due from other funds  | -                   | -                   | 42,370               | 42,370                         |
| Due from other governments  | 304,364             | -                   | 7,088,093            | 7,392,457                      |
| Due from others   | 24,702              | -                   | -                    | 24,702                         |
| Prepaid expenses  | 217,419             | -                   | -                    | 217,419                        |
| <b>Total assets</b>   | <b>\$ 6,994,031</b> | <b>\$ 3,895,942</b> | <b>\$ 10,093,535</b> | <b>\$ 20,983,508</b>           |
| <b>Liabilities and Deferred Inflows of Resources</b>                          |                     |                     |                      |                                |
| <b>Liabilities</b>  |                     |                     |                      |                                |
| Accounts payable and other liabilities  | \$ 148,511          | \$ 270,394          | \$ 5,088             | \$ 423,993                     |
| Due to other funds  | -                   | 42,370              | -                    | 42,370                         |
| Due to other governments  | -                   | 130,195             | -                    | 130,195                        |
| <b>Total liabilities</b>  | <b>148,511</b>      | <b>442,959</b>      | <b>5,088</b>         | <b>596,558</b>                 |
| <b>Deferred Inflows of Resources</b>  |                     |                     |                      |                                |
| Unavailable revenues:   |                     |                     |                      |                                |
| Property taxes  | 606,765             | -                   | 291,436              | 898,201                        |
| Developer agreement   | -                   | -                   | 6,452,530            | 6,452,530                      |
| <b>Total deferred inflows of resources</b>                                    | <b>606,765</b>      | <b>-</b>            | <b>6,743,966</b>     | <b>7,350,731</b>               |
| <b>Fund Balances</b>  |                     |                     |                      |                                |
| Nonspendable  | 217,419             | -                   | -                    | 217,419                        |
| Restricted  | -                   | 3,452,983           | 3,344,481            | 6,797,464                      |
| Unassigned  | 6,021,336           | -                   | -                    | 6,021,336                      |
| <b>Total fund balances</b>  | <b>6,238,755</b>    | <b>3,452,983</b>    | <b>3,344,481</b>     | <b>13,036,219</b>              |
| <b>Total liabilities, deferred inflows<br/>of resources and fund balances</b> | <b>\$ 6,994,031</b> | <b>\$ 3,895,942</b> | <b>\$ 10,093,535</b> | <b>\$ 20,983,508</b>           |

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

**Harris County Improvement District No. 1**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**

*June 30, 2021*

|   |    |              |
|---|----|--------------|
| Total fund balance of governmental funds  | \$ | 13,036,219   |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds</p> |    |              |
| Capital assets at historical cost   |    | 30,938,164   |
| Less accumulated depreciation   |    | (15,935,227) |
| Change due to capital assets  |    | 15,002,937   |
| <p>Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and therefore are deferred in the funds</p>                            |    |              |
| Property taxes receivable   |    | 806,252      |
| Penalty and interest receivable   |    | 91,949       |
| Change due to property taxes  |    | 898,201      |
| <p>Amounts due from project development agreements are due and, but are not available and therefore are deferred in the funds</p>   |    |              |
|   |    | 6,452,530    |
| <p>Some liabilities and deferred outflows are not due and payable in the current period and are not included in the fund financial statements, but are included in the statement of net position. These are as follows:</p>               |    |              |
| Bonds payable   |    | (33,490,000) |
| Deferred charge on refunding  |    | 43,798       |
| Unamortized premiums  |    | (130,565)    |
| Accrued interest  |    | (297,962)    |
| Compensated absences  |    | (80,310)     |
| Change due to long-term obligations   |    | (33,955,039) |
| Net position of governmental activities in the statement of net position  | \$ | 1,434,848    |

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

**Harris County Improvement District No. 1**  
**Statement of Revenues, Expenditures and Changes in Fund Balances —**  
**Governmental Funds**

| <i>For the year ended June 30, 2021</i> | General<br>Fund  | Capital<br>Projects | Debt<br>Service  | Total<br>Governmental<br>Funds |
|---|------------------|---------------------|------------------|--------------------------------|
| <b>Revenues</b>                         |                  |                     |                  |                                |
| Property taxes                          | \$ 6,055,967     | \$ -                | \$ 2,901,030     | \$ 8,956,997                   |
| Intergovernmental                       | 1,324,170        | -                   | 635,563          | 1,959,733                      |
| Investment earnings                     | 4,832            | 4,570               | 1,681            | 11,083                         |
| Other income                            | 53,972           | -                   | -                | 53,972                         |
| <b>Total revenues</b>                   | <b>7,438,941</b> | <b>4,570</b>        | <b>3,538,274</b> | <b>10,981,785</b>              |
| <b>Expenditures</b>                     |                  |                     |                  |                                |
| Current:                                |                  |                     |                  |                                |
| Planning and engineering                | 14,742           | -                   | -                | 14,742                         |
| Traffic control                         | 1,028,271        | -                   | -                | 1,028,271                      |
| Maintenance and beautification          | 2,741,107        | 7,307               | -                | 2,748,414                      |
| General and administrative              | 3,353,722        | -                   | -                | 3,353,722                      |
| Marketing and communications            | 412,961          | -                   | -                | 412,961                        |
| Economic development                    | 30,289           | -                   | -                | 30,289                         |
| Debt Service:                           |                  |                     |                  |                                |
| Principal                               | -                | -                   | 2,750,000        | 2,750,000                      |
| Interest and other charges              | -                | 3,250               | 974,034          | 977,284                        |
| Capital Outlay                          | -                | 1,403,525           | -                | 1,403,525                      |
| <b>Total expenditures</b>               | <b>7,581,092</b> | <b>1,414,082</b>    | <b>3,724,034</b> | <b>12,719,208</b>              |
| Net change in fund balances             | (142,151)        | (1,409,512)         | (185,760)        | (1,737,423)                    |
| Fund balances - beginning of year       | 6,380,906        | 4,862,495           | 3,530,241        | 14,773,642                     |
| Fund balances - end of year             | \$ 6,238,755     | \$ 3,452,983        | \$ 3,344,481     | \$ 13,036,219                  |

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



## Harris County Improvement District No. 1 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds to the Statement of Activities

Net change in total fund balances of governmental funds \$ (1,737,423)

Amounts reported for governmental activities in the statement of activities are different because:

Government funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.

|   |           |
|---|-----------|
| Property taxes and related penalties and interest | 507,932   |
| Project development agreement revenue             | (635,563) |
|   | (127,631) |

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of the assets is allocated over their estimated lives as depreciation expense

|                              |           |
|------------------------------|-----------|
| Capital outlay expenditures  | 77,789    |
| Depreciation expense         | (954,382) |
| Change due to capital assets | (876,593) |

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, at the government-wide level these transactions have the effect of increasing or decreasing long-term liabilities

|   |           |
|---|-----------|
| Principal payment of debt   | 2,750,000 |
| Premium is amortized over the life of the bonds                     | 60,021    |
| Deferred charge on refunding is amortized over the life of the bond | (20,136)  |
|   | 2,789,885 |

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These are as follows:

|                                |          |
|--------------------------------|----------|
| Change in compensated absences | (19,595) |
| Change in interest payable     | 24,125   |
|                                | 4,530    |

|   |           |
|---|-----------|
| Change in net position of governmental activities | \$ 52,768 |
|---|-----------|

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

**Harris County Improvement District No. 1**  
**Statement of Fiduciary Net Position**

| <i>June 30, 2021</i>       | Custodial<br>Fund |
|----------------------------|-------------------|
| <hr/>                      |                   |
| <b>Assets</b>              |                   |
| Investments                | \$ 1,270,599      |
| Contribution receivable    | 101,000           |
| <hr/>                      |                   |
| Total assets               | \$ 1,371,599      |
| <hr/>                      |                   |
| <b>Net Position</b>        |                   |
| Restricted for individuals | \$ 1,371,599      |
| <hr/>                      |                   |
| Total net position         | \$ 1,371,599      |
| <hr/>                      |                   |

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

## Harris County Improvement District No. 1 Statement of Changes in Fiduciary Net Position

| <i>For the year ended June 30, 2021</i>   | Custodial<br>Fund |
|---|-------------------|
| <b>Additions</b>                          |                   |
| Contributions:                            |                   |
| Employee contributions                    | \$ 153,467        |
| Employer contributions                    | 101,000           |
| Investment earnings:                      |                   |
| Net increase in fair value of investments | 211,108           |
| Interest, dividends, and other            | 30,730            |
| Total investment earnings                 | 241,838           |
| Total additions                           | 496,305           |
| <b>Deductions</b>                         |                   |
| Refund of contributions                   | 2,223             |
| Administrative expense                    | 8,285             |
| Total deductions                          | 10,508            |
| Net increase in fiduciary net position    | 485,797           |
| Net position - beginning of year          | 885,802           |
| Net position - end of year                | \$ 1,371,599      |

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

## **Harris County Improvement District No. 1**

### **Notes to Basic Financial Statements**

#### **NOTE 1: DESCRIPTION OF ORGANIZATION**

Harris County Improvement District No. 1 (the District) was organized, created, and established pursuant to an act of the 70<sup>th</sup> Texas State Legislature, effective under the terms and provisions of Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution. The Board of Directors held its organizational meeting on July 18, 1987. The first bonds were sold on June 23, 1993. See Note 7 for additional information regarding significant legal provisions contained in the legislative act creating the District.

The District's primary activities include managing and financing improvement projects and/or services benefiting the District. These activities include maintenance and beautification of the area, traffic control and transportation projects, special events for the holiday seasons, general planning and engineering, area marketing, major capital improvements and general and administrative services.

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Reporting Entity**

The District is a political subdivision of the State of Texas, governed by an appointed board, and is considered a primary government. The Governmental Accounting Standards Board (GASB) has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, as required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District's financial reporting in accordance with Section 2100: Defining the Financial Reporting Entity of the GASB Codification. Based on these considerations, no other entities, organizations or functions have been included in the District's financial reporting entity.

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from activities of the fiscal period. The effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants, who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not included among program revenues are reported as general revenues.

## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. These fund financial statements are the Balance Sheet - Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

The District reports the following major governmental funds:

General Fund - The general fund is used to account for administrative operations of the District. The principal source of revenue is property taxes. Expenditures include all costs associated with the daily operations of the District.

Debt Service Fund - The debt service fund is used to account for the payment of interest and principal on all general long-term debt of the District. The principal source of revenue is property taxes.

Capital Projects Fund - The capital projects fund is used to account for the expenditure of bond proceeds used in the construction of authorized improvement projects.

Additionally, the District reports the Custodial Fund which accounts for amounts held in a trust for employees of the Harris County Improvement District #1 457(b) Plan and amounts held for the Harris County Improvement District #1 Executive 457(f) Retirement Plan.

### Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The custodial fund is reported using the economic resources measurement focus and the accrual basis of accounting.

## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Net Position Classification

The District's government-wide net position is categorized as follows:

Net investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, notes or other borrowings.

Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

#### Fund Balance Classification

The District records reservations for all or portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unassigned fund balance indicates the portion of fund balance which is available for appropriation in future periods. The restricted fund balances for governmental funds represent the amount that has been identified for specific purposes.

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable – amounts that are not in spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of local, state, or federal laws, or externally imposed conditions by grantors or creditors.

Committed – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Directors). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint.

# Harris County Improvement District No. 1

## Notes to Basic Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

#### 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 June 30, 2021, the District believes all receivables are fully collectable and accordingly, no allowance has been recorded.

#### Interfund Transfers

Interfund receivables and payable arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are eliminated in the government-wide and fund financial statements.

#### Prepaid Expenses

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

#### Capital Assets

Capital assets are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair value at the date of donation. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives machinery and equipment is 10-20 years.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the balance sheet - governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has unavailable revenues for property taxes including penalty and interest of \$898,201, and developer agreements of \$6,452,530 that qualify for reporting in this category, which arise only under a modified accrual basis of accounting.

#### **Compensated Absences**

The District's employees earn vacation leave, which may either be taken or accumulated, up to certain amounts, until paid upon termination or retirement. The amounts are recorded as a liability in the statement of net position.

#### **Debt and Related Premiums, Discounts, and Issuance Costs**

Debt consists of unlimited public and private placement tax bonds. In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are expensed as incurred. In governmental fund financial statements, bond premiums, discounts and any debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt issuance expenditures.

#### **Use of Estimates**

The preparation of District's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make various estimates. Actual results could differ from those estimates.

#### **Recently Issued Accounting Pronouncement**

In June 2020, the GASB issued GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and



## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. Management is currently evaluating the requirements of this statement and the impact on reporting.

### NOTE 3: DEPOSITS AND INVESTMENTS

The cash deposits were comprised of demand accounts and were entirely covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 or by pledged collateral held by the District's agent banks in the District's name as of June 30, 2021.

As of June 30, 2021, the District had cash and cash equivalents of \$12,408,359 and did not hold any investments in the governmental funds at year-end.

#### Authorized Investments

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

#### 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 District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### NOTE 4: CAPITAL ASSETS

During the year ended June 30, 2021, the District's capital assets changed as follows:

|   | Beginning<br>balances | Additions           | Retirement  | Transfer    | Ending<br>balances   |
|---|-----------------------|---------------------|-------------|-------------|----------------------|
| <b>Capital assets being depreciated:</b>      |                       |                     |             |             |                      |
| Machinery and equipment                       | \$ 30,860,375         | \$ 77,789           | \$ -        | \$ -        | \$ 30,938,164        |
| Less accumulated depreciation                 | (14,980,845)          | (954,382)           | -           | -           | (15,935,227)         |
| <b>Total capital assets being depreciated</b> | <b>15,879,530</b>     | <b>(876,593)</b>    | <b>-</b>    | <b>-</b>    | <b>15,002,937</b>    |
| <b>Governmental capital assets, net</b>       | <b>\$ 15,879,530</b>  | <b>\$ (876,593)</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 15,002,937</b> |

Depreciation was charged to the Traffic Control function of the District in the amount of \$954,382.

### NOTE 5: LONG-TERM LIABILITIES

During the year ended June 30, 2021, the District's long-term liabilities changed as outlined below:

|                       | Beginning<br>Balances | Additions         | Reductions            | Ending<br>Balances   | Due Within<br>One Year |
|-----------------------|-----------------------|-------------------|-----------------------|----------------------|------------------------|
| <b>Bonds payable:</b> |                       |                   |                       |                      |                        |
| Public placements     | \$ 4,125,000          | \$ -              | \$ (990,000)          | \$ 3,135,000         | \$ 1,020,000           |
| Private placements    | 32,115,000            | -                 | (1,760,000)           | 30,355,000           | 1,800,000              |
| Unamortized premiums  | 190,586               | -                 | (60,021)              | 130,565              | -                      |
| Compensated absences  | 60,715                | 159,290           | (139,695)             | 80,310               | 26,770                 |
|                       | <b>\$ 36,491,301</b>  | <b>\$ 159,290</b> | <b>\$ (2,949,716)</b> | <b>\$ 33,700,875</b> | <b>\$ 2,846,770</b>    |

Bonds payable as of June 30, 2021 consists of the following:

| Series                                     | Amount<br>Outstanding | Original<br>Issue    | Rate           |
|--|-----------------------|----------------------|----------------|
| <b>Public Placement</b>                    |                       |                      |                |
| Unlimited Tax Refunding Bonds, Series 2013 | \$ 3,135,000          | \$ 9,300,000         | 1.875% - 4.00% |
| <b>Private Placement</b>                   |                       |                      |                |
| Unlimited Tax Bonds, Series 2015           | \$ 14,080,000         | \$ 20,365,000        | 2.499%         |
| Unlimited Tax Bonds, Series 2016           | 6,275,000             | 8,150,000            | 2.250%         |
| Unlimited Tax Bonds, Series 2018           | 10,000,000            | 10,000,000           | 3.390%         |
| <b>Total Private Placement</b>             | <b>\$ 30,355,000</b>  | <b>\$ 38,515,000</b> |                |

**Harris County Improvement District No. 1**  
**Notes to Basic Financial Statements**

**NOTE 5: LONG-TERM LIABILITIES (CONTINUED)**

During the fiscal year ended June 30, 2013, the District issued 2013 Refunding Bonds, refunding a portion of the 1999 and the 2004 bond issues. The reacquisition price exceeded the net carrying amount of the old debt by \$204,886. This resulting deferred outflow is amortized over the life of the Bond.

|                            | Previous<br>Balance | Current Year | Year End<br>Balance |
|----------------------------|---------------------|--------------|---------------------|
| Deferred loss on refunding | \$ 63,934           | \$ (20,136)  | \$ 43,798           |

Payment of principal and interest on the bonds is to be provided from tax levies on properties within the District. As the bonds are unlimited tax bonds, no other funds of the District have been pledged for debt service requirements. Investment income realized by the Debt Service Fund, from investment of excess funds, will be used to pay outstanding bond principal and interest. The District is in compliance with all significant requirements and restrictions contained in its bond resolution.

Annual debt service requirements to retire public placement bonds are as follows:

| Year Ending<br>June 30, | Principal    | Interest   | Total        |
|-------------------------|--------------|------------|--------------|
| 2022                    | \$ 1,020,000 | \$ 89,450  | \$ 1,109,450 |
| 2023                    | 1,045,000    | 58,475     | 1,103,475    |
| 2024                    | 1,070,000    | 21,400     | 1,091,400    |
|                         | \$ 3,135,000 | \$ 169,325 | \$ 3,304,325 |

## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to retire private placement bonds are as follows:

| Year Ending<br>June 30, | Principal     | Interest     | Total         |
|-------------------------|---------------|--------------|---------------|
| 2022                    | \$ 1,800,000  | \$ 810,179   | \$ 2,610,179  |
| 2023                    | 1,810,000     | 766,329      | 2,576,329     |
| 2024                    | 1,940,000     | 720,316      | 2,660,316     |
| 2025                    | 2,515,000     | 662,746      | 3,177,746     |
| 2026                    | 2,585,000     | 594,704      | 3,179,704     |
| 2027                    | 2,665,000     | 524,582      | 3,189,582     |
| 2028                    | 2,740,000     | 452,314      | 3,192,314     |
| 2029                    | 2,820,000     | 377,902      | 3,197,902     |
| 2030                    | 2,900,000     | 301,283      | 3,201,283     |
| 2031                    | 2,985,000     | 222,373      | 3,207,373     |
| 2032                    | 3,070,000     | 133,958      | 3,203,958     |
| 2033                    | 2,525,000     | 42,799       | 2,567,799     |
|                         | \$ 30,355,000 | \$ 5,609,485 | \$ 35,964,485 |

A summary of District Bonds authorized, but unissued at June 30, 2021 follows:

| Purpose  | Date<br>Authorized | Amount<br>Authorized | Amount<br>Unissued |
|--|--------------------|----------------------|--------------------|
| Stimulation and development of transportation      | 5/30/1992          | \$ 75,000,000        | \$ 21,410,000      |
| Conservation and preservation of natural resources | 5/30/1992          | 25,000,000           | 21,995,000         |
| Improvement projects payable from assessments      | 5/30/1992          | 25,000,000           | 25,000,000         |
| Improvement projects for economic diversification  | 11/20/1993         | 25,000,000           | 25,000,000         |
|  |                    | \$ 150,000,000       | \$ 93,405,000      |

### NOTE 6: PROPERTY TAXES

On May 30, 1992, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations (maintenance tax) limited to \$0.25 per \$100 of assessed property valuation. The Harris County Appraisal District determines all property valuations and exempt status, if any. The District's bond resolution requires that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying costs incurred in assessment and collection of these taxes. Taxes levied for debt service and related costs are without limitation as to rate or amount.

## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### NOTE 6: PROPERTY TAXES (CONTINUED)

The District has contracted with the Harris County Tax Assessor/Collector for its tax levy and collection functions. A tax lien attaches to properties within the District on January 1 of each year when property valuations for use in levying taxes are established. Taxes levied are generally billed in October and are due upon receipt of the tax bill. Penalty and interest are charged if taxes are not paid by January 31. There is an additional 15% penalty charged on accounts delinquent after July 1, which generally is payable to the District's delinquent tax attorney.

Property taxes are collected based on rates adopted in the year of the levy. The District's fiscal year ended June 30, 2021 was financed through the 2020 tax levy. The District levied property taxes of per \$100 of assessed value, of which \$0.09692 was allocated to maintenance and operations and \$0.04653 was allocated to debt service. The resulting tax levy was \$9,626,696 on the adjusted taxable value of \$6,658,583,328.

Taxes receivable, at June 30, 2021, consisted of the following:

|                                 |            |
|---------------------------------|------------|
| Current year taxes receivable   | \$ 523,389 |
| Delinquent taxes receivable     | 282,863    |
|                                 | <hr/>      |
|                                 | 806,252    |
| Penalty and interest receivable | 91,949     |
|                                 | <hr/>      |
| Total property tax receivable   | \$ 898,201 |

### NOTE 7: SIGNIFICANT LEGAL AND PROVISIONS OF LEGISLATIVE ACT CREATING DISTRICT

As discussed in Note 1, the District has been established pursuant to an act of the Texas State Legislature (the Act). Significant legal provisions of this act are summarized below.

#### District Boundaries

The Act provides specifically for boundaries of the District, which includes the Uptown Houston area. The Uptown Houston area is also known as the Galleria-Post Oak area in Houston, Texas. The District may annex additional land area in accordance with Chapter 54 of the Texas Water Code. On May 22, 2013, Harris County Improvement District No. 1 adopted an Order Adding Land (responding to a petition of the landowners) adding 33.99 acres of land (located in the vicinity of the intersection of US 59 and IH 610) to the District.

#### Texas Commission on Environmental Quality Involvement

The Act provides that the Texas Commission on Environmental Quality is to appoint District Directors. The Directors are to serve staggered four-year terms. Additionally, the Texas Commission on Environmental Quality must approve the issuance of any bonded indebtedness for the purposes of providing water, sewer or drainage facilities within the District. No other District activities are subject to the jurisdiction of the Texas Commission on Environmental Quality.

## **Harris County Improvement District No. 1**

### **Notes to Basic Financial Statements**

#### **NOTE 7: SIGNIFICANT LEGAL AND PROVISIONS OF LEGISLATIVE ACT CREATING DISTRICT (CONTINUED)**

##### **General and Specific Powers of the District**

The Act provides general powers to the District subject to general laws and regulations of the state applicable to conservation and reclamation districts created under Article XVI, Section 59 of the Texas Constitution and road districts and road utility districts created pursuant to Article III, Section 52, of the Texas Constitution, including those conferred by Chapter 54 of the Water Code and Chapter 13, Acts of the 68th legislature, 2nd Called Session, 1984 (Article 6674r-1, Vernon's Texas Civil Statutes).

Additional specific powers and duties are provided for in the act, which include the financing of improvement projects and/or services for the benefit of the District. Specific types of improvement projects are provided for in the act and include the acquisition of land in connection with the improvements. Eminent domain powers are specifically prohibited by the act. Improvement projects and/or services may be financed in whole or in part by the levy and collection of special assessments or property taxes on property in the area. The Act also provides that maintenance taxes may be levied after voter approval.

The Act provides for the method by which the District must petition, provide notice and hold public hearings prior to the financing of the improvement projects and/or services.

The Act also provides for the issuance of voter-approved bonded indebtedness to finance improvement projects and/or services. Specific guidelines in the act provide for the repayment of bonds, which might be issued, as well as the use of bond proceeds, available security that can be pledged in issuing the bonds and refunding capabilities for outstanding bonds.

##### **Director Bonds**

The Act requires that each Director appointed execute a bond for \$10,000 payable to the District and conditioned on faithful performance of his or her duties. All bonds of the Directors shall be approved by the Board.

#### **NOTE 8: PENSION PLAN**

For the benefit of its employees, the District provides discretionary contributions to a simplified employee pension plan, meeting the requirements of Internal Revenue Code Section 408(k). For the year ended June 30, 2021, the District contributed \$184,075 to the plan.

## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### **NOTE 9: DEFERRED COMPENSATION**

The District provides a trusted 457(b) eligible deferred compensation plan Retirement Plan and a 457(f) executive deferred compensation plan to its employees. The contributions to the 457(b) plan are self-directed and there is no expenditure incurred on behalf of the District. Each year, the District's Board determines the contribution for the 457(f) plan to be made for additional compensation to certain eligible employees after their retirement, or a death benefit to the employees' designated beneficiaries after their deaths. For the year ended June 30, 2021, the District contributed \$101,000 to the 457(f) plan. The amount in the 457(b) and 457(f) plans as of June 30, 2021 is \$759,571 and \$612,028, respectively.

### **NOTE 10: RISK MANAGEMENT**

The District 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. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for current year or the three prior years.

### **NOTE 11: TAX INCREMENT REINVESTMENT ZONE**

During the current and prior years, the District incurred certain planning expenditures related to the Tax Increment Reinvestment Zone No. 16 of the City of Houston (TIRZ). The TIRZ is located on property generally within the District's service area. During the year ended June 30, 2021, the District received \$1,324,170 from the TIRZ for reimbursement of administration costs, project management costs and traffic and mobility costs.

### **NOTE 12: PROJECT DEVELOPMENT AGREEMENT**

The District has entered into a financing agreement with Uptown Development Authority (the Authority) for advancing funds to the Authority for the purpose of financing the construction of public works and improvements (Hollyhurst and Post Oak Lane). Under the agreement, the District will fund the construction of certain facilities and improvements within the Zone. These facilities and improvements will be conveyed to the City upon completion of construction and inspection and acceptance by the City. The District issued \$8,150,000 in bonds for this purpose. The Authority agreed to repay 100% of all funds advanced including cost of issuance and interest on bonds issued to fund the projects. The District is reimbursed from available tax increment attributable to the Hollyhurst and Post Oak Lane projects. Amount reported as due from other governments for this purpose as of June 30, 2021 is \$7,088,093 for which \$6,452,530 is unavailable revenue as the payments will not be received within 60 days of year-end.

## Harris County Improvement District No. 1 Notes to Basic Financial Statements

### NOTE 13: RELATED PARTY TRANSACTIONS

#### *Uptown Development Authority*

The District has entered into an operating agreement with Uptown Development Authority (the Authority). The Authority is a component unit of the City of Houston formed to carry out improvements in the Uptown Houston area. The governing boards of both the District and the Authority have common members. It is the intent of both governing boards to maintain separately controlled operating entities. The agreement calls for the District to perform services as and when requested by the Authority Board. The services may consist of general administrative support, project management and development, consultant management, and other services as may be deemed necessary.

The Authority has an approved capital improvement plan which includes the reconstruction of Post Oak Boulevard. This Authority project requires the purchase of rights-of-way along Post Oak Boulevard. While the Authority is the purchaser, there are some parcels along the Boulevard that are owned and/or affiliated by/with members of the District board. The amount due from the Authority as of June 30, 2021 was \$304,364.

The District also has a Finance Agreement with the Authority in which the Authority could borrow up to \$3.5 million, which is to be repaid by the Authority's fiscal year-end (June 30, 2021). While this agreement is still in place, the Authority did not make use of requesting funds from the District. This agreement is reviewed and approved annually by both Boards of Directors.

#### *Mizington Incorporated*

The District has a service agreement with Mizington Incorporated (Mizington) for professional services. The Mizington employees are former District's employees. Mizington was created to provide employees with the option to contribute to social security as the District employees do not. For the year ended June 30, 2021, the District paid \$645,424 under this agreement of which \$61,027 is recorded as prepaid expenses in the government-wide and fund financial statements.

#### *Uptown Houston Association*

The District has a service agreement with the Uptown Houston Association (UHA) for traffic control services. The UHA's employees are former District's employees. For the year ended June 30, 2021, the District paid \$312,532 under this agreement of which \$112,745 is recorded as prepaid expenses in the government-wide and fund financial statements.

### NOTE 14: UNCERTAINTIES

The continued spread of COVID-19 pandemic is affecting the United States economies. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the District. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.



**REQUIRED SUPPLEMENTARY INFORMATION**

**Harris County Improvement District No. 1**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance – Budget to Actual (Unaudited)**

| <i>For the year ended June 30, 2021</i> | Original<br>Budget  | Final<br>Budget     | Actual              | Variance with<br>Final Budget<br>Positive/<br>(Negative) |
|---|---------------------|---------------------|---------------------|--|
| <b>Revenues</b>                         |                     |                     |                     |  |
| Property taxes                          | \$ 5,931,069        | \$ 5,931,069        | \$ 6,055,967        | \$ 124,898   |
| Intergovernmental                       | 1,270,000           | 1,270,000           | 1,324,170           | 54,170   |
| Investment earnings                     | 40,000              | 40,000              | 4,832               | (35,168)   |
| Miscellaneous                           | -                   | -                   | 53,972              | 53,972   |
| <b>Total revenues</b>                   | <b>7,241,069</b>    | <b>7,241,069</b>    | <b>7,438,941</b>    | <b>197,872</b>   |
| <b>Expenditures</b>                     |                     |                     |                     |  |
| Current:                                |                     |                     |                     |  |
| Planning and engineering                | 30,000              | 30,000              | 14,742              | (15,258)   |
| Traffic control                         | 1,000,000           | 1,000,000           | 1,028,271           | 28,271   |
| Maintenance and beautification          | 2,503,326           | 2,503,326           | 2,741,107           | 237,781  |
| General and administrative              | 3,212,743           | 3,212,743           | 3,353,722           | 140,979  |
| Marketing and communications            | 450,000             | 450,000             | 412,961             | (37,039)   |
| Economic development                    | 45,000              | 45,000              | 30,289              | (14,711)   |
| <b>Total expenditures</b>               | <b>7,241,069</b>    | <b>7,241,069</b>    | <b>7,581,092</b>    | <b>340,023</b>   |
| Net change in fund balance              | -                   | -                   | (142,151)           | (142,151)  |
| Fund balance - beginning of year        | 6,882,626           | 6,882,626           | 6,380,906           | -  |
| <b>Fund balance - end of year</b>       | <b>\$ 6,882,626</b> | <b>\$ 6,882,626</b> | <b>\$ 6,238,755</b> | <b>\$ (142,151)</b>                                      |

## **Harris County Improvement District No. 1 Notes to Required Supplementary Information**

### **Note 1: Budgets and Budgetary Accounting**

A non-appropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is considered a planning tool and does not constitute legal spending limit authority. The budget is prepared using the same method of accounting as for the financial reporting except that the General Fund budget includes federal grant revenues and the related transfers, when applicable.

Prior to July 1, 2020, the District adopted its annual budget, or Original Budget. Any amendments to the budget are made throughout the year but prior to June 30, 2021 to present a Final Budget as of June 30, 2021. There were no amendments to the budget during the fiscal year 2021.

### **Note 2: Budget Overages**

The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual presents budget overages in certain expenditures. Traffic control expenditures exceeded the budget by \$28,271 due to continued construction support including the Transit Center and West Loop construction and truck patrol. Maintenance and beautification expenditures exceeded the budget by \$237,781 due to increased maintenance cost for POB Esplanades and programming costs for the holiday obelisks. General and administrative expenditures exceeded the budget by \$140,979 due to new hire positions.