



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

## **FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**June 30, 2023**



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## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinions**

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2023, 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.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, 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 opinions.

### **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 District'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.

## **Auditors' 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 auditors' report that includes our opinions. 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 District'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 District'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**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of revenues, expenditures and changes in fund balance – general fund – budget to actual 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.

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

Houston, Texas  
December 13, 2023

# 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, 2023 with the year ended June 30, 2022 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 Funds* and in the *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds* 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 Funds* and the *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds* 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 deficit at June 30, 2023, was \$3,114,232.

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, 2023, the District had total assets of \$37,044,092 and deferred outflows of resources of \$3,526. Of this amount, \$14,575,719 consisted of cash and cash equivalents and \$15,659,297 of capital assets, net of depreciation and amortization. Capital assets, net of depreciation and amortization were corrected to include an additional \$541,934 of capital expenditures that were recognized as an expense in prior year. See Note 16 for additional information. Total liabilities were \$40,161,850 as of June 30, 2023, which consisted of \$38,972,919 of long-term liabilities. The long-term liabilities mainly consists of bonds and notes issued to pay for construction projects within boundaries of the District and lease liabilities. The other liabilities mainly consists of accounts payable, accrued interest, retainage payable and due to other governments.

A comparative summary of the District's overall financial position, as of June 30, 2023 and 2022, is as follows:

<i>June 30,</i>	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Current and other assets	\$ 21,384,795	\$ 24,806,803
Capital assets, net	15,659,297	16,084,391
<b>Total assets</b>	<b>37,044,092</b>	40,891,194
<b>Deferred Outflows of Resources</b>		
Deferred charge on refunding	3,526	23,662
<b>Liabilities</b>		
Other liabilities	1,188,931	728,905
Long-term liabilities	38,972,919	42,191,362
<b>Total liabilities</b>	<b>40,161,850</b>	42,920,267
<b>Net (Deficit) Position</b>		
Net investment in capital assets	1,923,031	2,020,794
Restricted for debt service	3,049,352	3,200,722
Unrestricted	(8,086,615)	(7,226,927)
<b>Total net (deficit) position</b>	<b>\$ (3,114,232)</b>	<b>\$ (2,005,411)</b>



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

The total net position of the District decreased by \$1,108,821. During the year ended June 30, 2023, net investment in capital assets decreased by \$97,763 mainly due to the depreciation for the fiscal year 2023, restricted net position decreased by \$151,370, and unrestricted net deficit increased by \$859,688 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>2023</b>	<b>2022</b>
<b>Revenues</b>		
<b>Program revenue:</b>		
Charges for services	\$ 1,523,717	\$ 2,211,251
<b>General Revenues:</b>		
Property taxes	8,777,243	8,184,286
Unrestricted investment earnings	252,812	13,848
<b>Total revenues</b>	<b>10,553,772</b>	<b>10,409,385</b>
<b>Expenses</b>		
General and administrative	3,584,566	3,314,157
Traffic control	2,141,599	2,024,431
Maintenance and beautification	2,883,593	3,335,380
Planning and engineering	14,867	23,775
Marketing and communications	416,210	471,260
Interest on long-term debt	913,487	1,101,398
Economic development	20,377	16,558
Construction on behalf of the City of Houston	1,687,894	4,104,619
<b>Total expenses</b>	<b>11,662,593</b>	<b>14,391,578</b>
Change in net position	<b>(1,108,821)</b>	<b>(3,982,193)</b>
Net (deficit) position - beginning of year, as restated	<b>(2,005,411)</b>	1,976,782
Net (deficit) position - end of year	<b>\$ (3,114,232)</b>	<b>\$ (2,005,411)</b>

### 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, 2023, the District’s governmental funds reported combined ending fund balances of \$14,944,798 a decrease of \$3,365,118 in comparison with the prior year. This net decrease is the result of continued spending for capital projects. This year, the first of six new intersection sign rings was completely fabricated and installed at the major intersection of Post Oak Boulevard and Westheimer. Final design was completed for two Uptown parks (Debrovner and Hidalgo) with construction slated to begin in September 2023. Additionally, schematic design was completed for the West Loop trail and bridge connecting Uptown to Memorial Park. Other projects like the installation of Flock cameras and the installation of improved lighting at the bus stations also contributed to the decrease in fund balance.

The unassigned portion of fund balance is \$4,552,334 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 \$6,835,962, debt service of \$3,336,764, 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>2023</b>	<b>Increase (Decrease)</b>	<b>2022</b>	<b>Increase (Decrease)</b>	<b>2021</b>
General Fund	\$ 4,772,072	\$ (660,801)	\$ 5,432,873	\$ (805,882)	\$ 6,238,755
Capital Projects Fund	6,835,962	(2,524,419)	9,360,381	5,907,398	3,452,983
Debt Service Fund	3,336,764	(179,898)	3,516,662	172,181	3,344,481
	<b>\$ 14,944,798</b>	<b>\$ (3,365,118)</b>	<b>\$ 18,309,916</b>	<b>\$ 5,273,697</b>	<b>\$ 13,036,219</b>

The General Fund is the chief operating fund of the District. Fund balance in the General Fund decreased by \$660,801 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 \$4,552,334, while expenditures for the year were \$7,980,057.

The Debt Service Fund has a total fund balance of \$3,336,764, 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 \$179,898.

The Capital Projects Fund has total fund balance of \$6,835,962. The decrease in the fund balance during the current year in the Capital Projects Fund was \$2,524,419. The decrease is due to spending on capital projects within the District and executing the capital program.

### GENERAL FUND BUDGETARY HIGHLIGHTS

There were no budget amendments during the year. The District anticipated an increase to fund balance of \$4,392, while the actual change resulted in a decrease to fund balance of \$660,801. Variances between budget and actual were due primarily to increased spending in the maintenance and beautification program, as well as the traffic and public safety program.

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

### DEBT ADMINISTRATION

At June 30, 2023 and 2022, the District had total debt outstanding as shown below:

	2023	2022
<b>Bonds:</b>		
Series 2013	\$ 1,070,000	\$ 2,115,000
Series 2015	11,480,000	12,780,000
Series 2016	5,265,000	5,775,000
Series 2018	10,000,000	10,000,000
<b>Notes:</b>		
Series 2022	10,000,000	10,000,000
	<b>\$ 37,815,000</b>	<b>\$ 40,670,000</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 17th largest business district in the United States: comparable to downtowns such as Denver and Cleveland. With almost 29 million square feet of total office space in its market area, Uptown accounts for 15.2% of the City of Houston’s total ‘Class A’ office space with 20 million square feet. There are 123,000 employees in the Uptown market area. At the end of the second quarter, 2023 class A office space was 70% leased, similar to Houston’s total Class A office market with occupancy at 76%.

The 2022 certified values for the office sector were down slightly from the previous year. Even with current flexible work models due to the pandemic, Uptown has a ‘back-to-work’ occupancy rate around 60%, one of the best in the nation according to Kastle Systems. As companies continue to encourage workers back to the office, it is anticipated that some adjustments to values will continue to occur. LyondellBasell announced it is moving its U.S. headquarters from downtown to Uptown. Its new lease is still the largest inked in Houston so far this year. There were no known significant lease breaks in the area. In the market area, 4411 San Felipe recently completed construction of a 100,000 SF mixed-use midrise that includes 80,000 SF of boutique office. This development is already over 60% leased.

#### 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 2022 were up slightly from the previous year. Retail was 95.1% leased as of Q2 2023. This market maintained as The Galleria is the fourth largest retail center in the United States. In the Uptown market area, 4411 San Felipe will soon deliver 15,000 SF of retail space in Q1, 2023. Levcor’s Post Oak Plaza is completing extensive transformation of their retail center bringing in new stores and restaurants such as il Bracco, Balboa Surf Club and Nando’s Peri-Peri. The Galleria continues to sign new luxury retailers such as the NBA store, Francesca’s and TOUS.

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

### **HOTEL**

Uptown now has 39 first quality hotels in the area, offering 8,400 rooms for guests. For calendar 2022, Uptown hotels had almost \$300M total sales receipts, a significant 33% increase over the previous calendar year. The ad valorem values for the hotel sector for 2022 were up over 20% from the previous year, approaching pre-pandemic values. Landry's 36 story mixed-use development, "The Post Oak", Texas' only AAA Double Five-Diamond hotel, led the rebound in hotel occupancy, followed by the Westins in the Galleria.

The area's RevPAR (revenues per available room) continues to recover. Uptown's Upscale Hotels' RevPAR for Q2 2023 was 104.46, a 22% increase over the previous year. The RevPar is now almost pre-pandemic level of \$105.23 in February 2020, a mere 0.7% difference. Uptown occupancy was 55.7%, a 13% increase over the same period one year ago. In comparison, the Houston Central Business District's RevPAR was at \$120.91 and Houston City-wide RevPAR at \$69.15. In Q2 of 2023 occupancy for the Houston Central Business District was at 45.79% and the City of Houston was at 45.54%.

### **RESIDENTIAL**

Uptown Houston is one of the most prestigious and desirable areas to live. The residential outlook in Uptown is positive. Previously announced projects such as the Hallmark Uptown Oaks and the DeisoMoss mixed-use tower have been put on hold for now. However, the 17-story Hawthorne, an upscale condominium tower in the Uptown market, is well under construction and expected to deliver by Q1 2024. Uptown residential occupancy rates are a healthy 92.29% for Q2 2023. In comparison, the Houston Central Business District's occupancy was 85.2% and the City of Houston was at 90.48%.

The economic outlook is stable in Uptown. 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, 2023*

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**Assets**

Cash and cash equivalents	\$ 14,575,719
Property taxes receivable	357,704
Due from other governments	6,207,498
Other receivables	24,136
Prepaid expenses	219,738
Capital assets, net	15,659,297

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Total assets 37,044,092

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**Deferred Outflows of Resources**

Deferred charge on refunding	3,526
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**Liabilities**

Accounts payable and other liabilities	767,676
Due to other governments	133,843
Accrued interest	287,412
Long-term liabilities:	
Due within one year	13,354,432
Due in more than one year	25,618,487

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Total liabilities 40,161,850

**Net Deficit**

Net investment in capital assets	1,923,031
Restricted for debt service	3,049,352
Unrestricted	(8,086,615)

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Total net deficit \$ (3,114,232)

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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, 2023</i>	Expenses	Program Revenue Charges for Services	Net (Expense) Revenues and changes in Net Position
General and administrative	\$ 3,584,566	\$ 1,335,004	\$ (2,249,562)
Traffic control	2,141,599	188,713	(1,952,886)
Maintenance and beautification	2,883,593	-	(2,883,593)
Planning and engineering	14,867	-	(14,867)
Marketing and communication	416,210	-	(416,210)
Interest on long-term debt	913,487	-	(913,487)
Economic development	20,377	-	(20,377)
Construction on behalf of the City of Houston	1,687,894	-	(1,687,894)
<b>Totals</b>	<b>11,662,593</b>	<b>1,523,717</b>	<b>(10,138,876)</b>
<b>General revenues</b>			
Property taxes			8,777,243
Unrestricted investment earnings			252,812
<b>Total general revenues</b>			<b>9,030,055</b>
Change in net position			(1,108,821)
Net deficit - beginning of year (restated)			(2,005,411)
<b>Net deficit - end of year</b>			<b>\$ (3,114,232)</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, 2023</i>	General Fund	Capital Projects	Debt Service	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 4,296,821	\$ 7,616,972	\$ 2,661,926	\$ 14,575,719
Taxes receivable	237,010	-	120,694	357,704
Due from other funds	-	-	42,370	42,370
Due from other governments	389,168	-	5,818,330	6,207,498
Other receivables	24,136	-	-	24,136
Prepaid expenses	219,738	-	-	219,738
<b>Total assets</b>	<b>\$ 5,166,873</b>	<b>\$ 7,616,972</b>	<b>\$ 8,643,320</b>	<b>\$ 21,427,165</b>
<b>Liabilities and Deferred Inflows of Resources</b>				
<b>Liabilities</b>				
Accounts payable and other liabilities	\$ 157,791	\$ 604,797	\$ 5,088	\$ 767,676
Due to other funds	-	42,370	-	42,370
Due to other governments	-	133,843	-	133,843
<b>Total liabilities</b>	<b>157,791</b>	<b>781,010</b>	<b>5,088</b>	<b>943,889</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues:				
Property taxes	237,010	-	120,694	357,704
Developer agreement	-	-	5,180,774	5,180,774
<b>Total deferred inflows of resources</b>	<b>237,010</b>	<b>-</b>	<b>5,301,468</b>	<b>5,538,478</b>
<b>Fund Balances</b>				
Nonspendable	219,738	-	-	219,738
Restricted	-	6,835,962	3,336,764	10,172,726
Unassigned	4,552,334	-	-	4,552,334
<b>Total fund balances</b>	<b>4,772,072</b>	<b>6,835,962</b>	<b>3,336,764</b>	<b>14,944,798</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 5,166,873</b>	<b>\$ 7,616,972</b>	<b>\$ 8,643,320</b>	<b>\$ 21,427,165</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, 2023*

Total fund balance of governmental funds	\$ 14,944,798
<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	34,162,002
Less accumulated depreciation and amortization	(18,502,705)
Change due to capital assets	15,659,297
<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	265,755
Penalty and interest receivable	91,949
Change due to property taxes	357,704
<p>Amounts due from project development agreements are due, but are not available, and therefore are deferred in the funds</p>	
	5,180,774
<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	(27,815,000)
Notes payable	(10,000,000)
Lease liability	(1,096,828)
Deferred charge on refunding	3,526
Unamortized premiums	(10,523)
Accrued interest	(287,412)
Compensated absences	(50,568)
Change due to long-term obligations	(39,256,805)
Net deficit of governmental activities in the statement of net position	\$ (3,114,232)

*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, 2023</i>	General Fund	Capital Projects	Debt Service	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 5,720,026	\$ -	\$ 2,965,104	\$ 8,685,130
Intergovernmental	1,335,004	-	637,556	1,972,560
Investment earnings	75,513	147,713	29,586	252,812
Other income	188,713	-	-	188,713
<b>Total revenues</b>	<b>7,319,256</b>	<b>147,713</b>	<b>3,632,246</b>	<b>11,099,215</b>
<b>Expenditures</b>				
Current:				
Planning and engineering	14,867	-	-	14,867
Traffic control	1,190,944	-	-	1,190,944
Maintenance and beautification	2,748,439	106,590	-	2,855,029
General and administrative	3,589,220	-	-	3,589,220
Marketing and communications	416,210	-	-	416,210
Economic development	20,377	-	-	20,377
Debt Service:				
Principal	-	-	2,855,000	2,855,000
Interest and other charges	-	24,756	957,144	981,900
Capital Outlay	-	2,540,786	-	2,540,786
<b>Total expenditures</b>	<b>7,980,057</b>	<b>2,672,132</b>	<b>3,812,144</b>	<b>14,464,333</b>
Net change in fund balances	(660,801)	(2,524,419)	(179,898)	(3,365,118)
Fund balances - beginning of year	5,432,873	9,360,381	3,516,662	18,309,916
Fund balances - end of year	\$ 4,772,072	\$ 6,835,962	\$ 3,336,764	\$ 14,944,798

*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 \$ (3,365,118)

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	92,112
Project development agreement revenue	(637,556)
	(545,444)

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 and amortization expense

Capital outlay expenditures	852,892
Depreciation and amortization expense	(1,277,986)
	(425,094)

Governmental funds report the proceeds from the issuance of long term debt, including leases, as other financing sources. In contrast, the statement of net position reports this as an addition to long-term liabilities. Also, governmental funds report premiums and similar items when the related debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal payment of debt	2,855,000
Repayment of lease liabilities	295,492
Premium amortized over the life of the bonds	60,021
Deferred charge on refunding amortized over the life of the bonds	(20,136)
	3,190,377

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	7,930
Change in interest payable	28,528
	36,458

Change in net position of governmental activities \$ (1,108,821)

*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, 2023</i>	Custodial Fund
<hr/>	
<b>Assets</b>	
Investments	\$ 1,665,921
Contribution receivable	-
<hr/>	
Total assets	\$ 1,665,921
<hr/> <hr/>	
<b>Net Position</b>	
Restricted for individuals	\$ 1,665,921
<hr/>	
Total net position	\$ 1,665,921
<hr/> <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, 2023</i>	Custodial Fund
<b>Additions</b>	
Contributions:	
Employee contributions	\$ 136,225
Employer contributions	101,000
Investment earnings:	
Net increase in fair value of investments	107,377
Interest, dividends, and other	38,704
Total investment earnings	146,081
Total additions	383,306
<b>Deductions</b>	
Distributions of benefits	174,409
Administrative expense	11,474
Total deductions	185,883
Net increase in fiduciary net position	197,423
Net position - beginning of year	1,468,498
Net position - end of year	\$ 1,665,921

*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 8 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 (not expected to be converted to cash) 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, 2023, the District believes all receivables are fully collectable and accordingly, no allowance has been recorded.

#### **Interfund Transfers**

Interfund transfers arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivables and payable receivables and payables are eliminated in the government-wide 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. Capital assets, excluding leased 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. The District defines capital assets, excluding leased assets, as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of machinery and equipment is 10-20 years.

#### Leases

Lease contracts that provide the District with control of a non-financial asset for a period of time in excess of twelve months are reported as a leased asset with a related lease liability in the government-wide financial statements. The lease liability is recorded at the present value of the future lease payments. As the leases do not provide an implicit rate, management uses the estimated incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments. The leased asset is recorded for the same amount as the related lease liability plus any prepayment and indirect cost to place the asset in service. Leased assets are amortized by the straight-line method over the shorter of the useful life of the asset or the lease term.



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

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

The lease liability is reduced for lease payments made, less the interest portion of the lease payment. In the fund financial statements, the leased asset used in the governmental fund operations is accounted for as a capital outlay expenditure of the appropriate governmental fund upon acquisition and the related lease liability is reported as other financing sources.

Lease terms may include options to extend or terminate the lease when it is reasonably certain that the District will exercise that option.

The District's lease agreements may contain lease and non-lease components, which are accounted for separately in accordance with GASB 87. The determination of the expense/expenditure for non-lease components has been made based on relative standalone prices of these components. The variable lease payments, which are excluded from the lease liability as they are not fixed in substance payments, are primarily comprised of common area maintenance, utilities and real estate taxes, and are recognized as an expense/expenditures in the period in which the obligations for those payments was incurred.

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net 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.

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 \$357,704, and developer agreements of \$5,180,774 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.

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

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

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

Debt consists of unlimited public and private placement tax bonds and notes with financial institutions. 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 the District's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### 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, 2023.

As of June 30, 2023, the District had cash and cash equivalents of \$14,575,719 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.

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

### NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

#### 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.

### NOTE 4: CAPITAL ASSETS

During the year ended June 30, 2023, the District's capital assets changed as follows:

	Beginning balances (Restated)	Additions	Retirements	Transfers	Ending balances
<b>Capital assets not being depreciated:</b>					
Construction in progress	\$ 541,934	\$ 852,892	\$ -	\$ -	\$ 1,394,826
<b>Capital assets being depreciated:</b>					
Machinery and equipment	31,097,647	-	-	-	31,097,647
Less: accumulated depreciation	(16,897,388)	(950,655)	-	-	(17,848,043)
Total capital assets, being depreciated, net	14,200,259	(950,655)	-	-	13,249,604
<b>Lease assets:</b>					
Leased asset: warehouse	932,375	-	-	-	932,375
Leased asset: office space	737,154	-	-	-	737,154
Less: accumulated amortization	(327,331)	(327,331)	-	-	(654,662)
Total lease assets being amortized, net	1,342,198	(327,331)	-	-	1,014,867
<b>Governmental activities capital assets, net</b>	<b>\$ 16,084,391</b>	<b>\$ (425,094)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,659,297</b>

Depreciation and amortization expense for the year ended June 30, 2023 totaled \$121,614 reported as maintenance and beautification, \$205,717 reported as general and administrative and \$950,655 reported as traffic control in the accompanying statement of activities.

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

### NOTE 5: LONG-TERM LIABILITIES

During the year ended June 30, 2023, the District's long-term liabilities changed as outlined below:

	Beginning Balances	Additions	Reductions	Ending Balances	Due Within One Year
Bonds payable:					
Public placements	\$ 2,115,000	\$ -	\$ (1,045,000)	\$ 1,070,000	\$ 1,070,000
Private placements	28,555,000	-	(1,810,000)	26,745,000	1,940,000
Notes from private placements	10,000,000	-	-	10,000,000	10,000,000
Lease liabilities	1,392,320	-	(295,492)	1,096,828	327,576
Unamortized premiums	70,544	-	(60,021)	10,523	-
Compensated absences	58,498	172,413	(180,343)	50,568	16,856
	<u>\$ 42,191,362</u>	<u>\$ 172,413</u>	<u>\$ (3,390,856)</u>	<u>\$ 38,972,919</u>	<u>\$ 13,354,432</u>

Bonds payable as of June 30, 2023 consists of the following:

Series	Amount Outstanding	Original Issue	Rate
<b>Public Placement</b>			
Unlimited Tax Refunding Bonds, Series 2013	\$ 1,070,000	\$ 9,300,000	1.875% - 4.00%
<b>Private Placement</b>			
Unlimited Tax Bonds, Series 2015	\$ 11,480,000	\$ 20,365,000	2.499%
Unlimited Tax Bonds, Series 2016	5,265,000	8,150,000	2.250%
Unlimited Tax Bonds, Series 2018	10,000,000	10,000,000	3.390%
Total Private Placement	<u>\$ 26,745,000</u>	<u>\$ 38,515,000</u>	

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 Balance	Current Year	Year End Balance
Deferred loss on refunding	\$ 23,662	\$ (20,136)	\$ 3,526

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.

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

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

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

Year Ending June 30,	Principal	Interest	Total
2024	\$ 1,070,000	\$ 21,400	\$ 1,091,400

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

Year Ending June 30,	Principal	Interest	Total
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
	\$ 26,745,000	\$ 4,032,977	\$ 30,777,977

A summary of District Bonds authorized, but unissued at June 30, 2023 follows:

Purpose	Date Authorized	Amount Authorized	Amount Unissued
Stimulation and development of transportation	5/30/1992	\$ 75,000,000	\$ 20,750,000
Conservation and preservation of natural resources	5/30/1992	25,000,000	12,700,000
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	20,000,000
		\$ 150,000,000	\$ 78,450,000

On January 26, 2022, the District authorized the issuance of Unlimited Tax Road Note, Series 2022 and Unlimited Tax Improvement Note, Series 2022 (Notes) in an aggregate principal amount of \$5,000,000 each. The method is a private placement note and the funds related to the Notes are used for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending macadamized, graveled or paved roads and turnpikes or in aid thereof and for the stimulation, expansion, and development of transportation, including, but not limited to, landscaping, lighting, banners and signs, streets or sidewalks, crosswalks or tunnels, and any drainage works necessary or appropriate as such works are related to or in furtherance of the construction, acquisition, or improvement of roads and for the simulation, expansion and development of transportation and all works, improvements, facilities, equipment, appliances, interest in property, and contract rights needed therefore and administrative facilities needed and paying the allocable costs of issuance. The Notes are due and payable on or before February 24, 2024. The Notes carry interest at a rate of 1.28% per annum and interest is payable semiannually on each March 1 and September 1, beginning September 1, 2022.

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

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

Notes payable from private placements as of June 30, 2023 consists of the following:

	Issuance Date	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
Unlimited Tax Improvemnet Note, Series 2022	1/26/2022	2/24/2024	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Unlimited Tax Road Note, Series 2022	1/26/2022	2/24/2024	5,000,000	-	-	5,000,000
			\$10,000,000	\$ -	\$ -	\$ 10,000,000

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

Year Ending June 30,	Principal	Interest	Total
2024	\$ 10,000,000	\$ 125,511	\$ 10,125,511

Payment of principal and interest on the Notes is to be provided from tax levies on properties within the District. The District is in compliance with all significant requirements and restrictions contained in its Notes resolutions.

### Note 6: LEASES

In November 2002, the District, as lessee, entered into a lease agreement with G&I Industrial Houston, LP for warehouse space. The District amended the agreement in November 2021 to extend the term through February 2029 and to expand the warehouse space effective January 2022. Per the agreement the monthly lease payment (base rent) of \$7,217 for the original space is adjusted by 2% annually starting in November 2018 through October 2022, amended to \$7,985 starting in November 2022 and adjusted by 3% annually through the remaining duration of the agreement with a rent free period from November to December 2022. Per the agreement the monthly lease payment (base rent) of \$2,984 for the additional space is adjusted by 2% starting in November 2022 through October 2023 and by 3% annually through the remaining duration of the agreement with a rent free period from January to February 2022. The District also pays monthly a proportionate share of building operating expenses (non-lease component). In accordance with GASB Statement No. 87 (GASB 87), the non-lease components have been excluded in the measurement of the lease liability. There is no renewal option for the warehouse lease.

At the time of the initial measurement, there was no interest rate specified in the original lease agreement. The District used its estimated incremental borrowing rate of 2.78% to discount the annual lease payments to recognize the leased asset. At June 30, 2023 the balance on the lease liability totaled \$756,829.

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

### Note 6: LEASES (CONTINUED)

The principal and interest payments of \$93,049 and \$22,492, respectively, for the year ended June 30, 2023 have been reported in maintenance and beautification in the accompanying governmental funds revenues, expenditures and changes in fund balances.

In July 1990, the District, as lessee, entered into a lease agreement with COUSINS POC I LLC for office space. The District amended the agreement in June 2013 to extend the term through January 2025 and to expand the office space effective February 2014. Per the agreement the monthly lease payment (base rent) of \$23 per square foot of net rentable area is adjusted by 2% annually starting in February 2015 through the duration of the agreement with a rent free period from February 2014 to April 2014. The District also pays monthly a proportionate share of building operating expenses (non-lease component). In accordance with GASB 87, the non-lease components have been excluded in the measurement of the lease liability. The District has an option for one renewal term of five years. The District is not reasonably certain this renewal option will be exercised.

At the time of the initial measurement, there was no interest rate specified in the original lease agreement. The District has used the District's estimated incremental borrowing rate of 2.78% to discount the annual lease payments to recognize the leased asset. At June 30, 2023 the balance on the lease liability totaled \$339,999.

The principal and interest payments of \$202,442 and \$12,527, respectively, for the year ended June 30, 2023 have been reported as general and administrative in the accompanying governmental funds revenues, expenditures and changes in fund balances.

Annual requirements to amortize the lease liabilities and related interest are as follows:

<i>For the years ending June 30,</i>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 327,576	\$ 26,364	\$ 353,940
2025	250,645	17,474	268,119
2026	130,471	12,776	143,247
2027	138,497	9,048	147,545
2028	146,879	5,092	151,971
2029	102,760	1,081	103,841
	<b>\$ 1,096,828</b>	<b>\$ 71,835</b>	<b>\$ 1,168,663</b>

Other information related to leases is as follows:

<i>For the year ended June 30,</i>	<b>2023</b>
Base rent expense	\$ 365,218
CAM and related expenses	168,047
<b>Total lease expense</b>	<b>\$ 533,265</b>

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

### NOTE 7: 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.

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, 2023 was financed through the 2022 tax levy. The District levied property taxes of per \$100 of assessed value, of which \$0.09445 was allocated to maintenance and operations and \$0.0490 was allocated to debt service. The resulting tax levy was \$9,301,731 on the adjusted taxable value of \$6,484,409,655.

Taxes receivable, at June 30, 2023, consisted of the following:

Current year taxes receivable	\$ 156,118
Delinquent taxes receivable	109,637
	<hr/>
	265,755
Penalty and interest receivable	91,949
	<hr/>
Total property tax receivable	\$ 357,704
	<hr/>

### NOTE 8: 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.



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

### **NOTE 8: SIGNIFICANT LEGAL AND PROVISIONS OF LEGISLATIVE ACT CREATING DISTRICT (CONTINUED)**

#### **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.

#### **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.

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

### **NOTE 9: 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, 2023, the District contributed \$186,224 to the plan.

### **NOTE 10: 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, 2023, the District contributed \$101,000 to the 457(f) plan. The amount in the 457(b) and 457(f) plans as of June 30, 2023 is \$876,442 and \$789,479, respectively.

### **NOTE 11: 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 12: 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, 2023, the District received \$1,335,004 from the TIRZ for reimbursement of administration costs, project management costs and traffic and mobility costs.

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

### NOTE 13: PROJECT DEVELOPMENT AGREEMENTS

#### *Uptown Development Authority*

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. Amounts reported as due from other governments for this purpose as of June 30, 2023 is \$5,818,330 for which \$5,180,774 is unavailable revenue as the payments will not be received within 60 days of year-end.

### NOTE 14: 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, 2023 was \$389,168.

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, 2023). 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, 2023, the District paid \$645,000 under this agreement of which \$63,250 is recorded as prepaid expenses in the government-wide and fund financial statements.

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

### NOTE 14: RELATED PARTY TRANSACTIONS (CONTINUED)

#### *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, 2023, the District paid \$1,224,412 under this agreement of which \$47,950 is recorded as prepaid expenses in the government-wide and fund financial statements.

### NOTE 15: NET ASSETS DEFICIT

At the end of the fiscal year, the District had a deficit net assets balance of \$3,114,232. This deficit is primarily due to long-term debt incurred by the District to pay for certain capital infrastructure projects, including roadways, drainage projects, trails and parks, that are ultimately conveyed to the City of Houston, but the debt incurred to create them remains the responsibility of the District.

### NOTE 16: PRIOR PERIOD ADJUSTMENT

The beginning net position of the Governmental Activities in the government-wide Statement of Net Position has been restated to record a prior period adjustment to correct the District's capital assets as certain capital expenditures were incorrectly excluded from construction in progress in the prior year. A reconciliation of the prior period ending net position to the current year beginning net position for the Governmental Activities is as follows:

Beginning net deficit, as originally presented	\$ (2,547,345)
Capital assets restatement	541,934
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Beginning net deficit, as restated	<u>\$ (2,005,411)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

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

<i>For the year ended June 30, 2023</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
<b>Revenues</b>				
Property taxes	\$ 6,063,378	\$ 6,063,378	\$ 5,720,026	\$ (343,352)
Intergovernmental	1,270,000	1,270,000	1,335,004	65,004
Investment earnings	5,000	5,000	75,513	70,513
Miscellaneous	-	-	188,713	188,713
<b>Total revenues</b>	<b>7,338,378</b>	<b>7,338,378</b>	<b>7,319,256</b>	<b>(19,122)</b>
<b>Expenditures</b>				
Current:				
Planning and engineering	25,000	25,000	14,867	10,133
Traffic control	1,050,000	1,050,000	1,190,944	(140,944)
Legislative services	24,000	24,000	20,000	4,000
Maintenance and beautification	2,473,126	2,473,126	2,748,439	(275,313)
General and administrative	3,308,860	3,308,860	3,569,220	(260,360)
Marketing and communications	425,000	425,000	416,210	8,790
Economic development	28,000	28,000	20,377	7,623
<b>Total expenditures</b>	<b>7,333,986</b>	<b>7,333,986</b>	<b>7,980,057</b>	<b>(646,071)</b>
Net change in fund balance	4,392	4,392	(660,801)	(665,193)
Fund balance - beginning of year	7,123,039	7,123,039	5,432,873	(1,690,166)
Fund balance - end of year	\$ 7,127,431	\$ 7,127,431	\$ 4,772,072	\$ (2,355,359)

## **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, 2022, the District adopted its annual budget, or Original Budget. Any amendments to the budget are made throughout the year but prior to June 30, 2023 to present a Final Budget as of June 30, 2023. There were no amendments to the budget during the fiscal year 2023.

#### **Note 2: BUDGET OVERAGES**

The Schedule of Revenues, Expenditures and Changes in Fund Balances – General Fund – Budget to Actual presents budget overages in certain expenditures. Traffic control expenditures exceeded the budget by \$140,944 due to increased patrol hours to address public safety concerns and the perception thereof. Maintenance and beautification expenditures exceeded the budget by \$275,313 due to expenses incurred to clean the construction yard and replace and refurbish seasonal color in the medians. Additionally, general and administrative costs exceeded budget by \$260,360. This increased cost was due to (1) an unbudgeted expense for an executive search firm to find the District's new president and (2) salary/burden costs for extended time for staff supporting the closeout of completed capital projects.