Harris County Improvement District No. 1

FINANCIAL STATEMENTS

June 30, 2024

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INDEPENDENT AUDITOR'S 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, 2024, 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, 2024, 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 Auditor's 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our 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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of revenues, expenditures and changes in fund balance – general fund – budget to actual is presented for purpose additional analysis and are not part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Houston, Texas
December 20, 2024

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, 2024 with the year ended June 30, 2023 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.

FINANCIAL HIGHLIGHTS

The District's programs involve enhancing and maintaining public spaces, public safety and traffic management, and supporting stakeholders/constituents and the economic development of the Uptown Houston area.

The District completed both Hidalgo Park and Debrovner Park. These two public park spaces enhance the amenities and beauty of the Uptown area. The District spent approximately $1.8 million to complete these two projects.

The District completed the installation of the newly designed intersection rings. There are four rings located at intersections on Post Oak Boulevard and two rings on Sage Road at the Richmond and Westheimer intersections.

The District committed funds to support the Uptown Development Authority's construction on the Wilson's Gully project. This project will address the area from San Felipe to Uptown Park along Post Oak Boulevard which frequently floods in heavy rainfall events. The installation of new relief pipe will double the flow capacity as well as spray-lined the existing pipe to lower the friction and increase water flow. The result is doubling the amount of water that will be in the drainage pipes and not the streets, thus mitigating the amount of flood events in the area. The District commitment to this project is $2.5 million. Other partners in this drainage project were the City of Houston ($3M) and Harris County ($700K).

In October 2023, Uptown Houston was awarded an $18.456 million grant. The District will partner with the Uptown Authority for the design and construction of a 1.9-mile hike & bike trail along I610 West Loop from Post Oak Boulevard to Memorial Park. The trail will originate in Post Oak Park and will cross Buffalo Bayou on a new suspension bridge to the Old Archery Range. From there it will traverse under I610 West Loop on the north bank of Buffalo Bayou to the Houston Arboretum and Nature Center and Memorial Park. The trail is needed to improve safety for people walking and riding bikes along the busiest highway in Texas traveling from Uptown and west Houston neighborhoods to Memorial Park.

In fiscal year 2024, the District issued Unlimited Tax Road and Refunding Bonds, Series 2024 in the amount of $13,000,000 less discount of $178,293. The proceeds from Bond Series 2024 fully refunded Unlimited Tax Road Note, Series 2022 and Unlimited Tax Improvement Note, Series 2022 and the remaining proceeds were mainly used to fund the trial/bridge project and other capital projects.

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.

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 (deficit). 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 (deficit) changed during the most recent fiscal year. All changes in net position (deficit) 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

Governmental funds 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 is 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 Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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.

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, the difference between assets, deferred outflows, and liabilities is called net position (deficit). 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.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's net deficit at June 30, 2024, was $4,114,925.

At June 30, 2024, the District had total assets of $37,853,081. Of this amount, $13,906,316 consisted of cash and cash equivalents and $17,935,570 of capital assets, net of depreciation and amortization. Total liabilities were $41,968,006 as of June 30, 2024, which consisted of $39,922,059 of long-term liabilities. The long-term liabilities mainly consist of bonds issued to pay for construction projects within boundaries of the District and lease liabilities. The other liabilities mainly consist of accounts payable, accrued interest, retainage payable and due to other governments.

A comparative schedule of net deficit at June 30, 2024 and 2023 follows:

June 30,		2024		2023
Assets				
Current and other assets	**$**	**19,917,511**	$	21,384,795
Capital assets, net		**17,935,570**		15,659,297
Total assets		**37,853,081**		37,044,092
Deferred Outflows of Resources				
Deferred charge on refunding		**-**		3,526
Liabilities				
Other liabilities		**2,045,947**		1,188,931
Long-term liabilities		**39,922,059**		38,972,919
Total liabilities		**41,968,006**		40,161,850
Net Deficit				
Net investment in capital assets		**3,084,293**		1,923,031
Restricted for debt service		**3,347,547**		3,049,352
Unrestricted		**(10,546,765)**		(8,086,615)
Total net deficit	**$**	**(4,114,925)**	$	(3,114,232)

The total net deficit of the District increased by $1,000,693 primarily due to significant expenses 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. During the year ended June 30, 2024, net investment in capital assets increased by $1,161,262 mainly due to the capitalization of new intersection rings and additional holiday stars, restricted net position increased by $298,195, and unrestricted net deficit increased by $2,460,150 due to spending on capital projects.

A comparative summary of the District's schedule of activities for the past two years is as follows:

For the years ended June 30,		2024		2023
Revenues				
Program revenue:				
Charges for services	**$**	**1,201,128**	$	1,523,717
General Revenues:				
Property taxes		**9,408,179**		8,777,243
Unrestricted investment earnings		**460,178**		252,812
Total revenues		**11,069,485**		10,553,772
Expenses				
Operating, general and administrative		**2,913,037**		3,584,566
Public safety and traffic control		**2,319,863**		2,141,599
Maintenance and beautification		**2,860,913**		2,883,593
Planning and engineering		**10,097**		14,867
Marketing and communications		**186,150**		416,210
Interest on long-term debt and other		**1,485,750**		913,487
Economic development		**20,327**		20,377
Construction on behalf of the City of Houston		**2,274,041**		1,687,894
Total expenses		**12,070,178**		11,662,593
Change in net position		**(1,000,693)**		(1,108,821)
Net deficit - beginning of year		**(3,114,232)**		(2,005,411)
Net deficit - end of year	**$**	**(4,114,925)**	$	(3,114,232)

District revenues have increased from prior year mainly due to a slight increase in property tax revenues and increase in interest earnings due to higher interest rates. Operating, general and administrative expenses decreased approximately twenty percent due to reduction in staff as certain projects were completed. Additionally, other cost saving measures were implemented by management and staff.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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.

As of June 30, 2024, the District's governmental funds reported combined ending fund balances of $13,469,555 a decrease of $1,475,243 in comparison with the prior year. This net decrease resulted from the completion of capital projects. This year, the last five new intersection rings were fabricated/installed: four intersection rings on Post Oak Boulevard and two intersection rings on Sage Road. Construction was also completed on two Uptown parks (Debrovner and Hidalgo). Additionally, capital costs were expended for additional holiday stars for the area, and design of the West Loop trail and bridge connecting Uptown to Memorial Park.

The unassigned portion of fund balance is $4,847,567 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 $4,718,052, debt service of $3,762,821, or is classified as nonspendable.

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

For the years ended June 30,	**2024**	**Increase (Decrease)**	**2023**	**Increase (Decrease)**	**2022**
General Fund	$ 4,988,682	$ 216,610	$ 4,772,072	$ (660,801)	$ 5,432,873
Capital Projects Fund	4,718,052	(2,117,910)	6,835,962	(2,524,419)	9,360,381
Debt Service Fund	3,762,821	426,057	3,336,764	(179,898)	3,516,662
	$ 13,469,555	$ (1,475,243)	$ 14,944,798	$ (3,365,118)	$ 18,309,916

The General Fund is the chief operating fund of the District. Fund balance in the General Fund increased by $216,610 during the current fiscal year. This increase was due to ongoing revenues exceeding operating expenditures. 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 $4,847,567, while expenditures for the year were $8,534,627.

The Debt Service Fund has a total fund balance of $3,762,821, all of which is restricted for the payment of debt service. The increase in fund balance during the current year in the Debt Service Fund was $426,057.

The Capital Projects Fund has total fund balance of $4,718,052. The decrease in the fund balance during the current year in the Capital Projects Fund was $2,117,910. The decrease is due to spending on capital projects within the District and executing the capital program.

GENERAL FUND BUDGETARY HIGHLIGHTS

General fund budget was amended during the year ended June 30, 2024. The District anticipated an increase to fund balance of $1,765, while the actual change resulted in a increase to fund balance of $216,610. Variances between budget and actual were primarily due to decrease in spending as the District reduced the staff and implemented other cost saving measures.

CAPITAL ASSETS AND DEBT ACTIVITY

Capital Assets

Capital assets held by the District at the end of current and previous fiscal years are summarized as follows:

June 30,	2024	2023
Capital assets not being depreciated:		
Construction in progress	$ 571,597	$ 1,394,826
Capital assets being depreciated:		
Machinery and equipment	34,109,541	31,097,647
Less: accumulated depreciation	(18,875,446)	(17,848,043)
Total capital assets, being depreciated, net	15,234,095	13,249,604
Right-to-use lease assets, being amortized		
Leased asset: warehouse	932,375	932,375
Leased asset: office space	2,169,396	737,154
Less: accumulated amortization	(971,893)	(654,662)
Total lease assets being amortized, net	2,129,878	1,014,867
Capital assets, net	$ 17,935,570	$ 15,659,297

Additional information on the District's capital assets can be found in Notes 1 and 2.

Debt

The District issues debt or other financing to finance capital projects. A comparative summary of the District's long-term debt as of June 30, 2024 and 2023, is as follows:

June 30,	2024	2023
Bonds payable:		
Public placements	$ 13,000,000	$ 1,070,000
Private placements	24,805,000	26,745,000
Notes from private placements	-	10,000,000
	37,805,000	37,815,000
Less: unamortized discount on bonds payable	(176,007)	-
Plus: unamortized premium on bonds payable	-	10,523
	$ 37,628,993	$ 37,825,523

Additional information on the District's debt can be found in Notes 1 and 2.

ECONOMIC FACTOR'S AND NEXT YEAR'S BUDGETS AND RATES

The annual budget is developed to provide efficient, effective, and economic uses of the District's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the District's Board sets the direction of the District, allocates its resources, and establishes its priorities.

In considering the budget for the 2025, Board and management prioritized the maintenance, safety, and economic viability for area stakeholders and constituents. Consideration was given to various economic trends including new development as well as trends in property valuations and protests/litigation settlements.

OFFICE SPACE

Uptown Houston is one of the most iconic business districts outside a historic core in the United States. It is comparable to downtowns such as Denver and Cleveland in office square footage. With more than 29 million square feet of total office space in the Uptown area, it accounts for over 15% of the City of Houston's total 'Class A' office space with 20.5 million square feet. There are 123,000 employees in the Uptown market area. At the end of August 2024 class A office space was almost 70% leased, similar to Houston's total Class A office market with occupancy at 75.7%.

The 2023 certified values for the office sector were up approximately 4% from the previous year. Even with current flexible work models due to the pandemic, Uptown has a -back-to-work' occupancy rate around 61.2%, 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. This transition will begin in December 2024. Camden announced it is also moving its headquarters to Uptown beginning in 2025. A yet-to-be-announced tenant will be taking up 130,000 SF in the Post Oak Central office tower #1. Another yet-to-be-announced tenant will take up another approximate 80,000 SF of that same tower in 2025. There were no known significant lease breaks in the area.

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 2023 increased 9% from the previous year. Retail was 95.1% leased as of August 2024. This market maintained as The Galleria is the fourth largest retail center in the United States. Levcor's Post Oak Plaza has now completed 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. Tilman Fertitta continues to increase his footprint in the Uptown area with the purchase of the River Oaks District as well as the parcel immediately west. Development plans have not been announced.

HOTEL

Uptown now has over 30 first quality hotels in the area, offering 8,400 rooms for guests. For calendar 2023, Uptown hotels had almost $343M total sales receipts, a significant 14.5% increase over the previous calendar year. "The Post Oak", Texas' only AAA Double Five-Diamond hotel, continued to lead in hotel total sales receipts. Additionally, the ad valorem values for the hotel sectors increased 8% from the previous year.

The area's RevPAR (revenues per available room) continues to grow. Uptown's Upscale Hotels' RevPAR through August 2024 was $118, a 13.5% increase over the previous year. The RevPar is now beyond pre-pandemic levels. Uptown occupancy was 61%, a 11% increase over the same period one year ago. In comparison, the Houston Central Business District's RevPAR was at $133 and Houston City-wide RevPAR at $77. Through August of 2024 occupancy for the Houston Central Business District was at 60.1% and the City of Houston was at 62.9%.

RESIDENTIAL

The economic outlook for residential continues to be positive in Uptown. The 17 story Hawthorne, an upscale condominium tower in the Uptown market, is now completed. Uptown residential occupancy rates are a healthy 92.5% through August 2024. In comparison, the Houston Central Business District's occupancy was 88.4% and the City of Houston was at 90%. A 340,000 SF, seven story mid-rise luxury multi-family residential project with 170 units is under construction at 3360 McCue by Cive. Expected completion date is Q2 of 2025

Uptown Houston is one of the most prestigious and desirable areas to live. The residential outlook in Uptown is positive.

NEW DEVELOPMENTS

The Goff-Schnitzer-Doggett families have announced a 1 ½ million SF high-end luxury mixed-use development on the site just north of Post Oak Central, formerly owned by Apache. The development will include a 5-star hotel, 5-star branded condominiums and apartments, and 300,000 SF Class A+ office tower, as well as high-end retail and restaurants.

Parkway/Midway, owners of the Post Oak Central towers, have announced a re-development of the site that will include upscale restaurants, and other major re-developments yet to be announced.

The economic outlook is stable in Uptown with a positive outlook anticipated in coming years. Two major developments planned for the next couple years will bring a significant amount of new capital investment to Uptown. There continues to be new development in the area and property values have maintained year over year.

Although economic factors such as property values, vacancy rates and future development influence the size of debt issues, management proactively adopts a conservative approach to ensure that adequate resources are available to fully support the continued growth of projects within the Uptown area.

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
Basic Financial Statements

Harris County Improvement District No. 1
Statement of Net Position

June 30, 2024	Primary Government Governmental Activities
Assets	
Cash and cash equivalents	$ 10,833,787
Restricted cash and cash equivalents	3,072,529
Property taxes receivable	277,084
Due from other governments	5,509,208
Other receivables	83,788
Prepaid expenses	141,115
Capital assets, net	17,935,570
Total assets	37,853,081
Liabilities	
Accounts payable and other liabilities	1,496,830
Due to other governments	133,843
Accrued interest	415,274
Long-term liabilities:	
Due within one year	2,656,261
Due in more than one year	37,265,798
Total liabilities	41,968,006
Net Deficit	
Net investment in capital assets	3,084,293
Restricted for debt service	3,347,547
Unrestricted	(10,546,765)
Total net deficit	$ (4,114,925)

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

Harris County Improvement District No. 1
Statement of Activities

For the year ended June 30, 2024			Net (Expense) Revenues and Changes in Net Deficit
		Program Revenue	Primary Government
Functions/Programs	Expenses	Charges for Services	Governmental Activities
Primary Government			
Operating, general and administrative	$ 2,913,037	$ 970,600	$ (1,942,437)
Public safety and traffic control	2,319,863	230,528	(2,089,335)
Maintenance and beautification	2,860,913	-	(2,860,913)
Planning and engineering	10,097	-	(10,097)
Marketing and communication	186,150	-	(186,150)
Interest on long-term debt	1,485,750	-	(1,485,750)
Economic development	20,327	-	(20,327)
Construction on behalf of the City of Houston	2,274,041	-	(2,274,041)
Total primary government	12,070,178	1,201,128	(10,869,050)
General revenues			
Property taxes			9,408,179
Unrestricted investment earnings			460,178
Total general revenues			9,868,357
Change in net deficit			(1,000,693)
Net deficit - beginning of year			(3,114,232)
Net deficit - end of year			$ (4,114,925)

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

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

June 30, 2024	General Fund	Capital Projects	Debt Service	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 4,592,660	$ 6,241,127	$ -	$ 10,833,787
Restricted cash and cash equivalents	-	-	3,072,529	3,072,529
Taxes receivable	182,999	-	94,085	277,084
Due from other funds	10,379	-	42,370	52,749
Due from other governments	328,434	-	5,180,774	5,509,208
Other receivables	45,315	26,038	12,435	83,788
Prepaid expenses	141,115	-	-	141,115
Total assets	$ 5,300,902	$ 6,267,165	$ 8,402,193	$ 19,970,260
Liabilities and Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable and other liabilities	$ 129,221	$ 1,362,521	$ 5,088	$ 1,496,830
Due to other funds	-	52,749	-	52,749
Due to other governments	-	133,843	-	133,843
Total liabilities	129,221	1,549,113	5,088	1,683,422
Deferred inflows of resources				
Unavailable revenues:				
Property taxes	182,999	-	94,085	277,084
Developer agreement	-	-	4,540,199	4,540,199
Total deferred inflows of resources	182,999	-	4,634,284	4,817,283
Fund balances				
Nonspendable	141,115	-	-	141,115
Restricted	-	4,718,052	3,762,821	8,480,873
Unassigned	4,847,567	-	-	4,847,567
Total fund balances	4,988,682	4,718,052	3,762,821	13,469,555
Total liabilities, deferred inflows of resources and fund balances	$ 5,300,902	$ 6,267,165	$ 8,402,193	$ 19,970,260

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

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

June 30, 2024

Total fund balances - governmental funds		$ 13,469,555
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Capital assets	$ 37,784,259	
Less accumulated depreciation and amortization	(19,848,689)	
Change due to capital assets		17,935,570
Some revenues will not be collected within 60 days after the close of the District's fiscal year-end and are not considered as "available" revenue in in the governmental funds and, therefore, are reported as deferred inflows of resources. In the statement of net position, which is on the full accrual basis, the revenue is fully recognized in the statement of activities.		4,817,283
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:		
Bonds payable	(37,805,000)	
Lease liabilities	(2,237,646)	
Unamortized discount	176,007	
Accrued interest	(415,274)	
Compensated absences	(55,420)	
Change due to long-term obligations		(40,337,333)
Net deficit of governmental activities		$ (4,114,925)

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

For the year ended June 30, 2024	General Fund	Capital Projects	Debt Service	Total Governmental Funds
Revenues				
Property taxes	$ 6,210,328	$ -	$ 3,278,471	$ 9,488,799
Intergovernmental	970,600	-	640,575	1,611,175
Investment earnings	157,539	224,993	77,646	460,178
Other income	230,528	-	-	230,528
Total revenues	7,568,995	224,993	3,996,692	11,790,680
Expenditures				
Current:				
Planning and engineering	10,097	-	-	10,097
Public safety and traffic control	1,292,460	-	-	1,292,460
Maintenance and beautification	2,706,145	167,489	-	2,873,634
Operating, general and administrative	4,319,448	-	-	4,319,448
Marketing and communications	186,150	-	-	186,150
Economic development	20,327		-	20,327
Debt Service:				
Principal	-	10,000,000	3,010,000	13,010,000
Interest and other charges	-	79,206	810,635	889,841
Debt issuance cost	-	472,759	-	472,759
Capital Outlay including construction on behalf of the City of Houston	-	4,445,156	-	4,445,156
Total expenditures	8,534,627	15,164,610	3,820,635	27,519,872
Excess (deficiency) of revenues over (under) expenditures	(965,632)	(14,939,617)	176,057	(15,729,192)
Other Financing Sources/(Uses)				
Proceeds from issuance of new bonds	-	13,000,000	-	13,000,000
Discount on bonds	-	(178,293)	-	(178,293)
Issuance of lease liability	1,432,242	-	-	1,432,242
Interfund transfers - release of operating reserve	(250,000)	-	250,000	-
Net other financing sources	1,182,242	12,821,707	250,000	14,253,949
Net change in fund balances	216,610	(2,117,910)	426,057	(1,475,243)
Fund balances - beginning of year	4,772,072	6,835,962	3,336,764	14,944,798
Fund balances - end of year	$ 4,988,682	$ 4,718,052	$ 3,762,821	$ 13,469,555

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 of Governmental Funds to the Statement of Activities

For the year ended June 30,		2024
Net change in total fund balances - total governmental funds		$ (1,475,243)
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	$ (80,620)	
Project development agreement revenue	(640,575)	
		(721,195)
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	3,622,257	
Depreciation and amortization expense	(1,345,984)	
		2,276,273
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. The issuance of long -term debt provides current financial resources to governmental funds while the repayment of principal uses current financial resources. Also, governmental funds report premiums, discounts 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	13,010,000	
Proceeds from issuance of debt, net of discount	(12,821,707)	
Issuance of lease liability	(1,432,242)	
Repayment of lease liabilities	291,424	
Premiums amortized over the life of the bonds	10,523	
Discounts amortized over the life of the bonds	(2,286)	
Deferred charge on refunding amortized over the life of the bonds	(3,526)	
		(947,814)
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	(4,852)	
Change in interest payable	(127,862)	
		(132,714)
Change in net deficit of governmental activities		$ (1,000,693)

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

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

June 30, 2024		Custodial Fund
Assets		
Cash and cash equivalents	$	222,724
Investments		1,154,500
Total assets	$	1,377,224
Net Position		
Restricted for individuals	$	1,377,224
Total net position	$	1,377,224

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

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

For the year ended June 30, 2024		Custodial Fund
Additions		
Contributions:		
Employee contributions	$	63,510
Employer contributions		101,000
Total contributions		164,510
Investment income:		
Net appreciation in the fair value of investments		158,763
Interest, dividends, and other		54,172
Total investment income		212,935
Total additions		377,445
Deductions		
Benefits paid		604,091
Administrative expenses		62,051
Total deductions		666,142
Net decrease in fuduciary net position		(288,697)
Net position - beginning of year		1,665,921
Net position - end of year	$	1,377,224

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Harris County Improvement District No. 1 (the District) was organized, created, and established pursuant to an act of the 70th 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 3 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, public safety and 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.

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.

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applied to governmental units. The more significant accounting policies used by the District are described below.

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 on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The District does not have any component units or business-type activities.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements (Continued)

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. Property tax revenue and investment earnings not included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary fund, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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 when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and proceeds from sale of capital assets are reported as other financing sources.

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

Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds and fiduciary funds each displayed in a separate column. Fiduciary funds are used to report assets held in a trustee or custodial capacity for others that cannot be used to support the government's own programs. Custodial funds are purely custodial and do not involve measurement of results of operations.

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.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported as interfund transfers. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, capital projects fund and debt service fund.

The budget may be amended during the year, as determined necessary, by the Board of Directors. After adoption, increases and decreases in the budget may be made upon Board of Director's approval. The level of budgetary control (i.e., the level at which expenditures may not exceed appropriations) is the fund level.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Balance

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be demand deposits, money market accounts and short term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments for the District are reported at fair value (generally based on quoted market prices). The investments are maintained by a trustee in money market mutual funds.

Receivables and Payables

Receivables and due from other governments – Consist of all revenues earned at year end and not yet received. 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, 2024, the District believes all receivables and due from other governments are fully collectible and, accordingly, no allowance has been created.

Unearned revenues – Unearned revenues recorded on the governmental fund balance sheet represents amounts received before eligibility requirements are met.

Interfund Activities and Transactions

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds which are eliminated in the statement of net position.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected in the capital projects fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and actions of the Board of Directors. Transfers between the funds are eliminated in the statement of activities.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Balance (Continued)

Prepaid Expenses

Certain payments to vendors 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.

Restricted Assets

Certain amounts of cash and cash equivalents are classified as restricted cash and cash equivalents on the statement of net position because their use is limited by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributors or laws or regulations of other governments. Restricted accounts have been established to account for the sources and uses of these limited use assets as follows:

Bond debt service accounts – Includes certain proceeds from issuance of revenue bonds, as well as certain resources set aside for the repayment of bonds obligations.

Capital Assets

Capital assets which include machinery and equipment, construction in progress and right-to-use lease assets, are reported in the applicable governmental activities column in the government-wide financial statements. 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.

Construction in progress is not depreciated. Machinery and equipment is depreciated using the straight-line method over the estimated useful lives of 10-20 years.

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 has no item that qualifies for reporting in this category.

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 $277,084 and developer agreements of $4,540,199 that qualify for reporting in this category, which arise only under a modified accrual basis of accounting.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Balance (Continued)

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.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. 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. In accordance with GASBC Section I30: *Interest Costs – Imputation*, bond issuance costs are expensed in the period incurred except for prepaid insurance costs.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are expensed during the current period. The debt proceeds are reported as other financing sources. Premiums received on debt issuances are reported as other financing sources and discounts on are reported as other financing uses. The payments of principal and interest are reported as expenditures. Issuance costs are reported as debt issuance expenditures.

Leases

Lease contracts that provide the District with control of a non-financial asset, such as office space and warehouse, for a period of time in excess of twelve months are reported as a right-to-use lease asset with a related lease liability. The lease liability is recorded at the present value of future lease payments, including fixed payments, variable payments based on an index or fixed rate and reasonably certain residual guarantees. The intangible right-to-use lease asset is recorded for the same amount as the related lease liability plus any prepayments and initial direct costs to place the asset in service. Right-to-use lease assets are amortized over the shorter of the useful life of the asset or the lease term. The lease liability is reduced for lease payments made, less the interest portion of the lease payment.

Lease term 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 are primarily comprised of common area maintenance, utilities and real estate taxes, and are recognized as an expenses/expenditures in the period in which the obligations for those payments was incurred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Balance (Continued)

Categories and Classification of Net Position and Fund Balance

Net position flow assumption – Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) 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. The District considers restricted – net position to have been depleted before unrestricted – net position is applied.

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.

Fund balance flow assumptions – 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, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. The District considers restricted fund balance to have been depleted before using any of the components of unrestricted fund balance as required under GASB No. 54. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies – Fund balance of the governmental fund is reported in various classifications based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The provisions of GASBC Section 1800, Classification and Terminology, specifies the following classifications:

Nonspendable fund balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Balance (Continued)

Categories and Classification of Net Position and Fund Balance (Continued)

Restricted fund balance – Restricted fund balance is restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's Board of Directors. The District's Board of Directors is the highest level of decision-making authority for the District that can, by adoption of a motion prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the motion remains in place until a similar action is taken (the adoption of another motion) to remove or revise the limitation. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – Amounts that are constrained by the District's intent to be used for a specific purpose but do not meet the criteria to be classified as committed. This intent can be expressed by the Board of Directors through the budgetary process. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance – Unassigned fund balance is the residual classification for the General Fund.

Revenues and Expenditures/Expenses

Amounts reported as program revenues include intergovenmental revenues related to reimbursement of certain cost incurred pursuant to terms of executed agreement (see Note 9) and other reimbursements associated to goods, services, or privileges provided by a given function or segment. Property taxes and interests are reported as general revenues rather than as program revenues.

Property taxes – Property taxes attach as an enforceable lien on real property and are levied as of July 1st. The tax levy is divided into two billings: the first billing (mailed on July 1) is an estimate of the current year's levy based on the prior year's taxes; the second billing (mailed on January 1) reflects adjustments to the current year's actual levy. The billings are considered past due 30 days after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles requires management to make various estimates management to make estimates. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to the useful lives and recoverability of capital assets, leases and deferred inflow of resources.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 20, 2024 and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recently Implemented Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that became effective in current year. The recently implemented statement is as follow:

GASB Statement No. 100, *Accounting Changes and Error Corrections*. This Statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). There were no significant impacts on implementing this standard.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follow:

GASB Statement No. 101*, Compensated Absences*, The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

In December 2023, the GASB issued GASB Statement No. 102, *Certain Risk Disclosures*. This Statement establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints. The requirements of this Statement apply to the financial statements of all state and local governments, and is effective for fiscal years beginning after June 15, 2024.

The District is evaluating the requirements of the above statements and the impact on reporting.

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits and Investments

As of June 30, 2024, the District had deposits in banks of $1,196,316 and investments in money market mutual funds of $12,710,000 in the governmental funds. The amount in excess of federal deposit insurance of $860,954 was fully collateralized by securities held by the pledging financial institutions. The District's investment policy requires pledging of collateral for all bank balances in excess of Federal Deposit Insurance Corporation (FDIC) limits.

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.

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

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 District’s allowable investments to the following: 1) Obligations of the United States or its agencies and instrumentalities including Fannie Mae, Freddie Mac and the Federal Home Loan Bank, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations (CMO’s) directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; District does not need to invest in CMO's directly. In the event that the District would hire a professional money manager, CMO's may be suitable, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less that A or its equivalent, (6) certificates of deposit issued by a state or national bank, or a savings bank, or a state or federal credit union that is guaranteed by the Federal Deposit Insurance Corporation or the national Credit Union Share Insurance Corporation or its successor; or issued under the Certificate of Deposit Account Registry Service program and secured by obligations that are authorized under the PFIA, (7) repurchase agreements that comply with the PFIA, (8) bankers' acceptances that comply with the PFIA, (9) commercial paper that complies with the PFIA, (10) No-load money market mutual funds that comply with the PFIA, (11) Investment pools, provided that they comply with the PFIA.

Deposit Custodial Credit Risk - Custodial credit risk as it applies to deposits is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The Public Funds Collateral Act (Chapter 2257, Texas Government Code) requires that all the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District has adopted a written investment policy, which establishes additional requirements for collateralization of deposits.

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.

Fair Value – GASBC Section 3100: Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

The three levels of the fair value hierarchy under the codification are described as follows:

Level 1 (L1): Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2 (L2): Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 (L3): Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2024:

	Fair Value	Level
Primary government		
Money market mutual funds (cash equivalents)	$ 12,710,000	L1
Total pimary government	12,710,000	
Fiduciary fund		
Mutual funds	611,349	L1
Fixed income mutual funds	305,223	L1
Equity securities	231,745	L1
Money market funds	6,183	L1
Total fiduciary fund	1,154,500	
Total assets measured by fair value level	$ 13,864,500	

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2024.

Mutual funds and money market funds – Mutual funds and money market funds are valued at the daily closing bid price reported on the last business day of the fiscal year on the active market on which the individual securities are traded.

Equity securities – Equity securities are valued using quoted market prices for those investments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Capital Assets

The following is a summary of changes in capital assets during the year ended June 30, 2024.

	Beginning balances	Additions	Retirements	Transfers	Ending balances
Capital assets not being depreciated:					
Construction in progress	$ 1,394,826	$ 2,171,115	$ -	$ (2,994,344)	$ 571,597
Capital assets being depreciated:					
Machinery and equipment	31,097,647	18,900	-	2,994,344	34,110,891
Less: accumulated depreciation	(17,848,043)	(1,028,753)	-	-	(18,876,796)
Total capital assets, being depreciated, net	13,249,604	(1,009,853)	-	2,994,344	15,234,095
Right-to-use lease assets, being amortized					
Leased asset: warehouse	932,375	-	-	-	932,375
Leased asset: office space	737,154	1,432,242	-	-	2,169,396
Less: accumulated amortization	(654,662)	(317,231)	-	-	(971,893)
Total lease assets being amortized, net	1,014,867	1,115,011	-	-	2,129,878
Capital assets, net	$ 15,659,297	$ 2,276,273	$ -	$ -	$ 17,935,570

Depreciation and amortization expense was allocated to the governmental functions in the statement of activities. Amortization expense for the year ended June 30, 2024, totaled $121,614 reported as maintenance and beautification and $195,617 reported as general and administrative. Depreciation expense for the year ended June 30, 2024, totaled $1,027,403 reported as public safety and traffic control, and $1,350 reported as general and administrative.

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt and Liabilities

During the year ended June 30, 2024, the District's long-term debt and liabilities changed as outlined below:

	Beginning Balances	Additions	Reductions	Ending Balances	Due Within One Year
Bonds payable:					
Public placements	$ 1,070,000	$ 13,000,000	$ (1,070,000)	$ 13,000,000	$ -
Private placements	26,745,000	-	(1,940,000)	24,805,000	2,515,000
Notes from private placements	10,000,000	-	(10,000,000)	-	-
Lease liabilities	1,096,828	1,432,242	(291,424)	2,237,646	122,788
Unamortized premiums	10,523	-	(10,523)	-	-
Unamortized discount	-	(178,293)	2,286	(176,007)	-
Compensated absences	50,568	167,966	(163,114)	55,420	18,473
	$ 38,972,919	$ 14,421,915	$ (13,472,775)	$ 39,922,059	$ 2,656,261

Public and private bonds

Bonds payable as of June 30, 2024 consists of the following:

Series	Amount Outstanding	Original Issue	Rate
Public Placement			
Unlimited Tax Refunding Bonds, Series 2024	$ 13,000,000	$ 13,000,000	4.000%
Private Placement			
Unlimited Tax Bonds, Series 2015	$ 10,165,000	$ 20,365,000	2.499%
Unlimited Tax Bonds, Series 2016	4,740,000	8,150,000	2.250%
Unlimited Tax Bonds, Series 2018	9,900,000	10,000,000	3.390%
Total Private Placement	$ 24,805,000	$ 38,515,000	

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	$ 3,526	$ (3,526)	$ -

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt and Liabilities (Continued)

Public and private bonds (Continued)

On February 22, 2024, the District issued Unlimited Tax Road and Refunding Bonds, Series 2024 in the amount of $13,000,000 less discount of $178,293. Discount of issuance of bonds is amortized over the life of the bonds. The proceeds from Bond Series 2024 fully refunded Unlimited Tax Road Note, Series 2022 and Unlimited Tax Improvement Note, Series 2022 with aggregate principal of $10,000,000 plus interest of $61,510. The proceeds from Bonds Series 2024 were also used to fund a capital project for $2,100,000 and to pay costs of issuance of $472,644, leaving $187,552 for contingencies.

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 June 30,	Principal	Interest	Total
2025	$ -	$ 533,000	$ 533,000
2026	-	520,000	520,000
2027	-	520,000	520,000
2028	-	520,000	520,000
2029	-	520,000	520,000
2030	-	520,000	520,000
2031	-	520,000	520,000
2032	-	520,000	520,000
2033	-	520,000	520,000
2034	480,000	510,400	990,400
2035	510,000	490,600	1,000,600
2036	535,000	469,700	1,004,700
2037	565,000	447,700	1,012,700
2038	595,000	424,500	1,019,500
2039	630,000	400,000	1,030,000
2040	665,000	374,100	1,039,100
2041	700,000	346,800	1,046,800
2042	740,000	318,000	1,058,000
2043	780,000	287,600	1,067,600
2044	820,000	255,600	1,075,600
2045	870,000	221,800	1,091,800
2046	915,000	186,100	1,101,100
2047	965,000	148,500	1,113,500
2048	1,020,000	108,800	1,128,800
2049	1,075,000	66,900	1,141,900
2050	1,135,000	22,700	1,157,700
	$ 13,000,000	$ 9,772,800	$ 22,772,800

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt and Liabilities (Continued)

Public and private bonds (Continued)

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

Year Ending June 30,	Principal	Interest	Total
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
	$ 24,805,000	$ 3,312,661	$ 28,117,661

A summary of District Bonds authorized, but unissued at June 30, 2024 follows:

Purpose	Date Authorized	Amount Authorized	Amount Unissued
Stimulation and development of transportation	5/30/1992	$ 75,000,000	$ 18,180,000
Conservation and preservation of natural resources	5/30/1992	25,000,000	12,195,000
Improvement projects payable from assesments	5/30/1992	25,000,000	25,000,000
Improvement projects for econnomic diversification	11/20/1993	25,000,000	20,000,000
		$ 150,000,000	$ 75,375,000

Notes payable

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 were fully refunded during fiscal year ended June 30, 2024 by using proceeds from bond series 2024.

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt and Liabilities (Continued)

Notes payable (Continued)

During the year ended June 30, 2024, the activity of the notes payable is summarized as follows:

	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)	$ -

Leases - Lessee

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, 2024 the balance on the lease liability totaled $641,394.

The principal and interest payments of $115,435 and $19,589, respectively, for the year ended June 30, 2024 have been reported in maintenance and beautification in the accompanying governmental funds revenues, expenditures and changes in fund balances.

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt and Liabilities (Continued)

Leases – Lessee (Continued)

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. In May 2024, the lease agreement was modified to extend the term of the lease by 132 months ending in April 2035, increase the base rent to $25 per square foot of net rentable area adjusted by 2% annually starting in May 2025 through the duration of the agreement. The amendment also provided a rent credit of $297,178 to be applied in twenty-four equal monthly installments against the base rent. 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 and amended lease agreement and the District 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, 2024 the balance on the lease liability totaled $1,596,252.

The principal and interest payments of $175,989 and $11,502, respectively, for the year ended June 30, 2024 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:

For the years ending June 30,	**Principal**	**Interest**	**Total**
2025	$ 122,788	$ 49,552	$ 172,340
2026	135,514	69,388	204,902
2027	286,194	50,455	336,649
2028	302,362	42,338	344,700
2029	266,245	33,951	300,196
2030	171,709	28,271	199,980
2031	180,161	23,443	203,604
2032	188,849	18,380	207,229
2033	197,779	13,075	210,854
2034	206,956	7,523	214,479
2035	179,089	1,843	180,932
	$ 2,237,646	$ 338,219	$ 2,575,865

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt and Liabilities (Continued)

Leases – Lessee (Continued)

Other information related to leases is as follows:

For the year ended June 30,	2024
Base rent expense	$ 318,973
CAM and related expenses	207,842
Total lease expense	$ 526,815

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, 2024 was financed through the 2023 tax levy. The District levied property taxes of per $100 of assessed value, of which $0.09373 was allocated to maintenance and operations and $0.04972 was allocated to debt service. The resulting tax levy was $9,727,355 on the adjusted taxable value of $6,773,610,774.

Taxes receivable, at June 30, 2024, consisted of the following:

Current year taxes receivable	$ 67,532
Delinquent taxes receivable	117,603
	185,135
Penalty and interest receivable	91,949
Total property tax receivable	$ 277,084

NOTE 3: 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.

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.

NOTE 3: SIGNIFICANT LEGAL AND PROVISIONS OF LEGISLATIVE ACT CREATING DISTRICT (CONTINUED)

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 4: 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, 2024, the District contributed $156,900 to the plan.

NOTE 5: 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, 2024, the District contributed $101,000 to the 457(f) plan. The amount in the 457(b) and 457(f) plans as of June 30, 2024 is $612,903 and $764,321, respectively.

NOTE 6: 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 7: TAX INCREMENT REINVESTEMENT 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, 2024, the District received $970,600 from the TIRZ for reimbursement of administration costs, project management costs and traffic and mobility costs.

NOTE 8: 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, 2024 is $5,180,774 for which $4,540,199 is unavailable revenue as the payments will not be received within 60 days of year-end.

NOTE 9: 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's Board. The services may consist of general administrative support, project management and development, consultant management, and other services as may be deemed necessary. The amount due from the Authority as of June 30, 2024 was $328,434.

The District has a Project Finance Agreement with the Authority in which District agreed to advance funds up to $3 million, to pay for the expenses incurred by the Authority for design and construction of drainage improvements of Wilson Gully. Each advance fund carries interest at a rate equal to three month LIBOR rate at the effective date as defined in the agreement plus 2% from the date the advance was made until the date of repayment in full. Repayments against advances are to be made from time to time, with interest only payments to be made no less than one per Authority fiscal year with the final payment to be made no later than ten years from the agreement date. As of June 30, 2024, the Authority did not make use of requesting funds from the District.

The District also has a Financing Agreement with the Authority in which the Authority could borrow up to $3 million, which is to be repaid by the Authority's fiscal year-end (June 30, 2024). 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.

NOTE 9: RELATED PARTY TRANSACTIONS (Continued)

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, 2024, the District paid $531,867 under this agreement of which $77,847 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, 2024, the District paid $1,200,000 under this agreement.

NOTE 10: NET ASSETS DEFICIT

At the end of the fiscal year, the District had a deficit net assets balance of $4,114,925. 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 11: FEDERAL AWARD

In October 2023, the Texas Transportation Commission (Commission) awarded federal funds and transportation development credits (TDCs) to support a variety of bicycle and pedestrian planning and infrastructure projects throughout the state of Texas under the Transportation Alternative Set-Aside Program (Program). The Program is administered by the Texas Department of Transportation. Funds allocated to the District for the West Loop Shared Use Path and Bayou Project under this Program was $18,456,060. The project is in design phase as of June 30, 2024, and the District has incurred expenses totaling $35,200 for this project.

SUPPLEMENTARY INFORMATION

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

For the year ended June 30, 2024	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues				
Property taxes	$ 6,220,096	$ 5,766,788	$ 6,210,328	$ 443,540
Intergovernmental	970,600	970,600	970,600	-
Investment earnings	65,000	65,000	157,539	92,539
Miscellaneous	-	-	230,528	230,528
Total revenues	7,255,696	6,802,388	7,568,995	766,607
Expenditures				
Current:				
Planning and engineering	12,500	12,500	10,097	2,403
Public safety and traffic control	1,262,067	1,201,667	1,292,460	(90,793)
Legislative services	24,000	24,000	-	24,000
Maintenance and beautification	2,716,128	2,520,878	2,706,145	(185,267)
Operating, general and administrative	2,853,078	2,853,078	4,319,448	(1,466,370)
Marketing and communications	345,000	173,500	186,150	(12,650)
Economic development	20,000	15,000	20,327	(5,327)
Total expenditures	7,232,773	6,800,623	8,534,627	(1,734,004)
Other Financing (Sources) Uses				
Issuance of lease liability	-	-	1,432,242	(1,432,242)
Transfer out	-	-	(250,000)	250,000
Net other financing sources	-	-	1,182,242	(1,182,242)
Net change in fund balance	22,923	1,765	216,610	214,845
Fund balance - beginning of year	7,127,431	7,127,431	4,772,072	(2,355,359)
Fund balance - end of year	$ 7,150,354	$ 7,129,196	$ 4,988,682	$ (2,140,514)

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, 2023, the District adopted its annual budget, or Original Budget. Any amendments to the budget are made throughout the year but prior to June 30, 2024 to present a Final Budget as of June 30, 2024.

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. Public safety and traffic control expenditures exceeded the budget by $90,793 due to increased patrol hours to address public safety concerns and the perception thereof. Further, operating, general and administrative costs exceeded budget by $1,466,370 as during the fiscal year 2024, the office lease agreement was modified which resulted in additional lease expense of $1,432,242.