

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY

CITY OF HOUSTON, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Near Northside Redevelopment Authority
City of Houston, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Near Northside Redevelopment Authority (the "Authority"), a component unit of the City of Houston, Texas, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority'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 respective financial position of the governmental activities and major fund of the Authority as of June 30, 2022 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 Opinion

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 Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Authority'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.

Member of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, including omissions, 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 Authority'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 Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund 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.

Board of Directors
Near Northside Redevelopment Authority

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information required by the City of Houston, Texas and other supplementary information is presented for purposes of additional analysis and is not a required 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. This information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 26, 2022

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

Management's discussion and analysis of Near Northside Redevelopment Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2022. Please read it in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Authority anticipates that tax increment revenues derived from the development and redevelopment of the Authority will be sufficient to cover expenditures associated with certain design, construction and financing of planned infrastructure, and other specific project related costs throughout the duration of the Authority. The City of Houston ("City"), at its sole discretion, may issue bonds, notes or other obligations secured by the tax increment revenues; the proceeds of which could be used to pay for or reimburse developers for project costs. However, the City may elect to pay for project costs directly from tax increment proceeds as they become available without the sale of bonds or notes.
- Tax increment revenues of \$653,163 were received from the City in June 2022 for the tax year 2021 versus budgeted revenues from tax increments of \$631,313, a budgeted surplus of \$21,850. The Authority received no grant income for year ended June 30, 2022 and no grant revenue was budgeted.
- Total management and consulting expenses for the year ended June 30, 2022 were \$236,112 versus budgeted expenses of \$424,000, a budgeted surplus of \$187,888.
- In the Authority's government-wide financial statements, liabilities exceeded assets by \$4,521,234 (net position) at June 30, 2022, compared to \$4,801,488 at June 30, 2021, a \$280,254 increase.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) fund financial statements and government-wide financial statements and (2) notes to the basic financial statements. The fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance. This report also includes required and other supplementary information in addition to the basic financial statements.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Authority's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Evaluation of the overall financial health of the Authority would extend to other non-financial factors.

The Statement of Activities reports how the Authority's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include 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 Authority has one governmental fund type. The General Fund is the operating fund of the Authority and accounts for all resources of the Authority.

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the Authority's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the Authority and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and the accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as useful indicator of the Authority's financial position. In the case of the Authority, liabilities exceeded assets by \$4,521,234 as of June 30, 2022.

The following table provides a summary of changes in the Statement of Net Position as of June 30, 2022 and June 30, 2021.

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2022</u>	<u>2021</u>	<u>Variance Positive (Negative)</u>
ASSETS			
Cash and Investments	\$ 978,373	\$ 508,260	\$ 470,113
Tax Increment Receivable	-	590,729	(590,729)
Capital Assets	123,022	123,022	-
TOTAL ASSETS	<u>\$ 1,101,395</u>	<u>\$ 1,222,011</u>	<u>\$ (120,616)</u>
LIABILITIES			
Accounts Payable	\$ 35,326	\$ 18,507	\$ (16,819)
Due to Developer	5,587,303	6,004,992	417,689
TOTAL LIABILITIES	<u>\$ 5,622,629</u>	<u>\$ 6,023,499</u>	<u>\$ 400,870</u>
NET POSITION			
Net Investment in Capital Assets	\$ 123,022	\$ 123,022	\$ -
Unrestricted	(4,644,256)	(4,924,510)	280,254
TOTAL NET POSITION	<u>\$ (4,521,234)</u>	<u>\$ (4,801,488)</u>	<u>\$ 280,254</u>

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the Statement of Activities for the fiscal year ended June 30, 2022, and June 30, 2021:

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2022</u>	<u>2021</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Tax Increment Revenue	\$ 653,163	\$ 590,729	\$ 62,434
Interest Revenue	641	646	(5)
Total Revenues	<u>\$ 653,804</u>	<u>\$ 591,375</u>	<u>\$ 62,429</u>
Expenses:			
Administrative Consultant	\$ 46,545	\$ 51,266	\$ 4,721
Accounting	15,031	13,532	(1,499)
Auditing	9,250	9,000	(250)
Engineering Consultant	35,924	151,765	115,841
Planning Consultant	79,000	-	(79,000)
Legal Consultant	30,177	18,940	(11,237)
Insurance	1,248	930	(318)
Other Consultant	12,528	1,868	(10,660)
Bank Charges	267	236	(31)
Office Expense	6,142		(6,142)
Conveyance of Assets	137,438	37,080	(100,358)
Total Expenses	<u>\$ 373,550</u>	<u>\$ 284,617</u>	<u>\$ (88,933)</u>
Change in Net Position	\$ 280,254	\$ 306,758	\$ (26,504)
Net Position, Beginning of Year	<u>(4,801,488)</u>	<u>(5,108,246)</u>	<u>306,758</u>
Net Position, End of Year	<u><u>\$ (4,521,234)</u></u>	<u><u>\$ (4,801,488)</u></u>	<u><u>\$ 280,254</u></u>

**NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

FINANCIAL ANALYSIS OF THE AUTHORITY'S GOVERNMENTAL FUND

The Authority's only governmental fund is the General Fund. This fund is the operating fund of the Authority and is the source of the day-to-day operations. As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. The General Fund reported an ending fund balance of \$943,047.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of the Authority did not amend the budget during the current fiscal year. Actual revenues were \$20,701 more than budgeted. Actual expenditures were \$787,290 less than budgeted due to the timing of capital projects. A budgetary comparison schedule is included as RSI for the General Fund.

CAPITAL ASSETS

During the fiscal year ending June 30, 2022, the Authority did not incur any development costs.

LONG-TERM DEBT ACTIVITY

As of June 30, 2022, the Authority did not have any long-term debt, but has recorded an amount due to the Developer of \$5,587,303 which includes project costs for onsite and offsite public improvements as well as reimbursable interest.

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Near Northside Redevelopment Authority, c/o Bracewell LLP 711 Louisiana Street, Suite 2300, Houston, Texas 77002-2770.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2022

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 721,368	\$ -	\$ 721,368
Investments	257,005	-	257,005
Capital Assets - Development Costs	-	123,022	123,022
TOTAL ASSETS	\$ 978,373	\$ 123,022	\$ 1,101,395
LIABILITIES			
Accounts Payable	\$ 35,326	\$ -	\$ 35,326
Due to Developer	-	5,587,303	5,587,303
TOTAL LIABILITIES	\$ 35,326	\$ 5,587,303	\$ 5,622,629
FUND BALANCE			
Unassigned	\$ 739,694	\$ (739,694)	\$ -
Assigned for 2023 Budget Deficit	203,353	(203,353)	-
TOTAL FUND BALANCE	\$ 943,047	\$ (943,047)	\$ -
TOTAL LIABILITIES AND FUND BALANCE	\$ 978,373		
NET POSITION			
Net Investment in Capital Assets		\$ 123,022	\$ 123,022
Unrestricted		(4,644,256)	(4,644,256)
TOTAL NET POSITION		\$ (4,521,234)	\$ (4,521,234)

The Accompanying notes to the financial
Statements are an integral part of this report.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

Total Fund Balance - Governmental Fund	\$ 943,047
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Development costs incurred in governmental activities are not a financial resource and therefore are not reported as an asset in governmental funds.	123,022
Certain liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. These liabilities at year end consisted of an amount due to the Developer for development costs.	<u>(5,587,303)</u>
Total Net Position - Governmental Activities	<u>\$ (4,521,234)</u>

The Accompanying notes to the financial
Statements are an integral part of this report.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2022

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Tax Increment Revenue	\$ 653,163	\$ -	\$ 653,163
Interest Revenue	641	-	641
TOTAL REVENUES	<u>\$ 653,804</u>	<u>\$ -</u>	<u>\$ 653,804</u>
EXPENDITURES/EXPENSES:			
Administrative Consultant	\$ 46,545	\$ -	\$ 46,545
Accounting	15,031	-	15,031
Auditing	9,250	-	9,250
Capital Expenditures	137,438	(137,438)	-
Engineering Consultant	35,924	-	35,924
Legal Consultant	30,177	-	30,177
Planning Consultant	79,000	-	79,000
Insurance	1,248	-	1,248
Other Consultant	12,528	-	12,528
Bank Charges	267	-	267
Office Expense	6,142	-	6,142
Developer Reimbursement	417,689	(417,689)	-
Conveyance of Assets	-	137,438	137,438
TOTAL EXPENDITURES/EXPENSES	<u>\$ 791,239</u>	<u>\$ (417,689)</u>	<u>\$ 373,550</u>
NET CHANGE IN FUND BALANCE	\$ (137,435)	\$ 137,435	\$ -
CHANGE IN NET POSITION	-	280,254	280,254
FUND BALANCE/NET POSITION - JULY 1, 2021	<u>1,080,482</u>	<u>(5,881,970)</u>	<u>(4,801,488)</u>
FUND BALANCE/NET POSITION - JUNE 30, 2022	<u>\$ 943,047</u>	<u>\$ (5,464,281)</u>	<u>\$ (4,521,234)</u>

The Accompanying notes to the financial
Statements are an integral part of this report.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Net Change in Fund Balance - Governmental Fund	\$	(137,435)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlay for developer reimbursements as expenditures. However, such costs are not reported as expenses on the Statement of Activities, but are instead used to reduce the long-term liability in the Statement of Net Position.</p>		417,689
<p>Assets conveyed to other entities for operations and maintenance are recorded as expenses in the Statement of Assets.</p>		(137,438)
<p>Governmental funds report capital outlay for development costs as expenditures. However, such costs are not reported as expenses on the Statement of Activities, but are instead capitalized in the Statement of Net Position.</p>		<u>137,438</u>
Change in Net Position - Governmental Activities	\$	<u><u>280,254</u></u>

The Accompanying notes to the financial
Statements are an integral part of this report.

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NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1. CREATION OF CORPORATION

The City of Houston, Texas (the “City”) authorized the creation of the Hardy/Near Northside Authority (the “Authority”) by Ordinance No. 2009-32 on November 10, 2009. The State of Texas Certificate of Incorporation became effective November 20, 2009. The Authority was created and organized as a local government corporation pursuant to provisions of Chapter 311 of the Texas Tax Code. The Authority is organized as a public non-profit corporation for the purpose of aiding, assisting, and acting on behalf of the City in the performance of its governmental function to promote the common good and general welfare of the Hardy/Near Northside Zone (the Zone), approximately 326.1 acres generally bounded by Quitman Street on the North, U.S. Highway 59 on the East, Interstate 10 on the South, and Interstate Highway 45 on the West. The Zone is described in City of Houston, Texas, Ordinance No 2003-1258. The primary focus of the Zone is to facilitate affordable housing, transit orientated mixed-use development, and the extension and potential grade separation of San Jacinto Street north from Interstate 10 to the southern terminus of Fulton Street. Additional efforts will focus on improvements to public utility systems, parks and the repositioning of distressed infrastructure conditions. The basis for the creation of the Authority in 2009 was to a) facilitate the implementation of the Project Plan and a Reinvestment Zone Financial Plan for the Hardy/Near Northside Zone and the implementation of amendments thereto; b) facilitate the development of a policy for and implementation of the financing and construction of public infrastructure improvements and open space improvements necessary for the development of residential, commercial, public and other land uses in the Hardy/Near Northside Zone; and c) facilitate the development and implementation of a redevelopment policy for the Hardy/Near Northside Zone, including the acquisition of land for redevelopment purposes. The Authority may issue tax-exempt bonds or notes with consent of City Council to fund improvements. The Authority is governed by a Board of Directors consisting initially of four (4) persons who are appointed by the Mayor with the approval of City Council. Additional persons may be added to the Board of the Authority in accordance with the provisions of the Bylaws. The Authority has filed documents to be known as Near Northside Redevelopment Authority.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”).

The GASB has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit’s board, (3) is the primary government able to impose its will on the potential component unit and (4) is there a financial benefit or burden relationship. The Authority was created as an instrumentality of the City. The Authority does meet the criteria for inclusion as a component unit of the City. Copies of the financial statements for the City may be obtained from the City Secretary’s office.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which includes a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net assets into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of “Restricted” or “Net Investment in Capital Assets.”

When both restricted and unrestricted resources are available for use, generally it is the Authority’s policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Authority as a whole. The Authority’s Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The Authority is viewed as a special purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the General Fund to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

The Statement of Activities is reported by adjusting the general fund to report only items related to current year revenues and expenditures. Items such as land and land improvements are charged to cost of sales when sold. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense in the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the Authority's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Funds

The Authority has only one major governmental fund type – the General Fund. This fund is the general operating fund of the Authority and accounts for all resources of the Authority.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The Authority considers revenues reported in the governmental funds to be available if they are collectable within sixty (60) days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Cash

The Authority's cash consists of amounts in demand deposits.

Investments

The Authority invests cash not needed for near term operating needs in the Texas Local Government Investment Pool (“TexPool”).

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with the Tri-Party Agreement (see Note 4), the Authority's board members adopted an unappropriated budget for the General Fund.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are reported using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported, regardless of the timing of related cash flows. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The Authority does not have any nonspendable fund balances.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally required. The Authority does not have any restricted fund balances.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the Authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The Authority does not have any committed fund balances.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Authority has assigned \$203,353 of its General Fund balance to offset a FY2023 budgeted deficit.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Unassigned - all other spendable amounts in the General Fund.

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

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of the Authority, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At June 30, 2022, none of the Authority's bank balances were exposed to custodial credit risk.

The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Position at June 30, 2022, as listed below:

Total Cash Deposits	<u>\$721,368</u>
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NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas statute, the Authority is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all Authority funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the Authority’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The Authority’s investments must be made “with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest Authority funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the Authority and its authority to purchase investments as defined in the Public Funds Investment Act. The Authority has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The Authority’s investment policy may be more restrictive than the Public Funds Investment Act.

The Authority invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

As of June 30, 2022, the Authority had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL</u>					
<u>FUND -</u>					
TexPool	\$ 257,005	\$ 257,005	\$ -	\$ -	\$ -
					=

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2022, the Authority’s investment in TexPool, an external investment pool, was rated AAAM by Standard & Poor’s.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the Authority, unless there has been a significant change in value.

NOTE 4. TRI-PARTY AGREEMENT

The City of Houston, Reinvestment Zone Number Twenty-One, and the Authority entered into the Tri-Party Agreement pursuant to City Ordinance No. 2009-1271 effective December 15, 2009. The Tri-Party Agreement states in detail the scope of services to be provided to the Zone by the Authority. The services include management and administrative service for the Zone, as requested by the Zone Board, services with respect to the Project Plan and Reinvestment Zone Financing Plan (the "Plan"), including implementation and updating, and services with respect to the tax rolls pertaining to the Zone, including analysis and coordination with taxing units. The Authority is also required to assist the Zone Board in establishing a program to increase the level of safety within the Zone, preparing development plans, establishing a marketing and public relations program and in planning, design and construction of infrastructure improvements and land acquisition.

The Tri-Party Agreement also provides for the Authority to issue bonds and notes, enter into obligations with developers or builders, and enter into contracts with consultants and to be repaid from Contract Tax Increments. All bonds must be approved by City Council and the Director of the Finance Department of the City of Houston must approve all development agreements. This Agreement shall end upon termination of the Zone.

Pursuant to the Agreement, the City and the Zone have agreed to pay the Authority not later than the first business day of each July in which a current approved budget is in effect for the Authority, all monies available in the Tax Increment Fund, less (a) a reserve of up to five percent of the monies then available in the Tax Increment Fund for administrative costs of the City, (b) the amount due to the City from the Zone pursuant to the affordable housing agreement, and (c) certain tax increments constituting educational facilities project costs to be paid to the Houston Independent School District. Notwithstanding the above, in the event the Authority's budget is not approved by the thirtieth (30th) day before the date of a principal and interest payment on the Authority's bonds or notes, the City shall pay from available funds sufficient monies to the Authority to allow for meeting the Authority's debt service obligations.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 5. TAX INCREMENTS

The City of Houston, Texas has agreed to deposit tax increments into the Tax Increment Fund established by the Zone (See Note 6).

The amount of a Participant's tax increment for a year is the amount of property taxes levied and collected by the Participant for that year on the Captured Appraised Value of real property taxable by the Participant and located in the Zone. The Captured Appraised Value of real property taxable by a Participant for a year is the total appraised value of all real property taxable by the Participant and located in the Zone for that year less the Tax Increment Base, which is the total appraised value of all real property taxable by the Participant and located in the Zone on January 1 of the year in which the Zone was designated as such under the Tax Increment Financing Act (the "TIF Act"). In the event property is annexed into the Zone by ordinance of the City, the Tax Increment Base for annexed property is the value of all real property taxable by a Participant and located in the annexed area on January 1 of the year of annexation. No Participant is required to deposit tax increments derived from property annexed into the Zone unless the Participant has agreed to do so.

Each Participant is required to collect taxes on property located within the Zone in the same manner as other taxes are collected. The Participant is required to pay into the tax increment fund the collected tax increments by no later than the 90th day after the delinquency date for the Participant's property taxes.

NOTE 6. CITY OF HOUSTON TAX INCREMENTS

Pursuant to City Ordinance No. 2009-1271, the City and the Zone have established the Tax Increment Fund, a separate fund in the City Treasury into which tax increments have and will be deposited.

Tax increments of \$653,163 were remitted from the fund to the Authority for tax year 2021. In addition, the City withheld \$353,061 from the tax increment to fund affordable housing and \$52,959 to pay City administrative fees.

NOTE 7. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates in the Texas Municipal League Intergovernmental Risk Pool ("TML") to provide general liability, errors and omission and automobile liability. The Authority, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. During the year ended June 30, 2022, the Authority contributed \$1,248 to the fund for this insurance coverage. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8. DEVELOPMENT AGREEMENT

The Authority has entered into a Development Agreement dated March 4, 2010, and as amended on May 14, 2012, with CR V Hardy Yards, L.P. (“Hardy Yards LP”), the owner of property located within the Hardy/Near Northside Zone. Hardy Yards LP is responsible for the inspection, supervision and management of the construction and installation of the improvements to the Hardy/Near Northside Zone. The improvements are to be made in accordance with the terms of the Development Agreement and amendment thereto and relevant City ordinances or procedures.

The Authority shall reimburse Hardy Yards LP for the amount of actual project costs incurred plus accrued interest. Hardy Yards LP is responsible for determining that project costs are eligible in accordance with terms defined in the Developer Reimbursement Agreement and amendment thereto. The costs to be reimbursed are not to exceed \$33,312,000 as noted in the original agreement. Included in the original reimbursable amount were costs related to the purchase or condemnation of right-of-way for the San Jacinto Street Extension Project in the amount of \$2,700,000. During fiscal year 2012, an ordinance was passed that authorized the appropriation of \$2,033,223 out of the Woodlands Regional Participation Fund to fund these costs.

The Authority will utilize available tax increments in order to reimburse Hardy Yards LP for the costs incurred until all project costs have been fully reimbursed. Hardy Yards LP has no right to claim any reimbursement other than from available tax increment or bond proceeds.

As of June 30, 2022, Hardy Yards LP has incurred a total of \$7,849,582 in development costs on behalf of the Authority. The Authority has reimbursed the Developer \$2,262,279, of which \$417,689 was reimbursed during the fiscal year ended June 30, 2022, leaving a balance of \$5,587,303 due to the Developer at June 30, 2022. The total is comprised of \$4,199,357 for onsite public improvements and \$1,387,946 for offsite public improvements.

NOTE 9. CAPITAL ASSETS – DEVELOPMENT COSTS

During the fiscal year ended June 30, 2022, the Authority did not incur development costs with Central Houston Civic Improvement for planning and design work in connection with a project for a hike and bike trail within the Zone. Cumulative costs for this project as of June 30, 2022, totaled \$123,022.

During the fiscal year ended June 30, 2022, Hardy Yards LP did not incur development costs related to onsite and offsite public improvements within the boundaries of the Authority. The project has been completed and assets were conveyed to the City of Houston for maintenance and operation. The Authority will reimburse the Developer for project costs in the amount of the actual costs of the public improvements to the extent that the Developer’s project generates tax increment revenues.

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NEAR NORTHSIDE REDEVELOPMENT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2022

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund		
	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Tax Increment Revenue	\$ 631,313	\$ 653,163	\$ 21,850
Grant Revenue	-	-	-
Interest Revenue	1,790	641	(1,149)
TOTAL REVENUES	\$ 633,103	\$ 653,804	\$ 20,701
EXPENDITURES			
Maintenance and Operations	\$ 424,000	\$ 236,112	\$ 187,888
Capital Expenditures	716,500	137,438	579,062
Developer/Project Reimbursements	438,029	417,689	20,340
TOTAL EXPENDITURES	\$ 1,578,529	\$ 791,239	\$ 787,290
NET CHANGE IN FUND BALANCE	\$ (945,426)	\$ (137,435)	\$ 807,991
FUND BALANCE - JULY 1, 2021	1,161,784	1,080,482	(81,302)
FUND BALANCE - JUNE 30, 2022	\$ 216,358	\$ 943,047	\$ 726,689

See accompanying independent auditor's report.

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NEAR NORTHSIDE REDEVELOPMENT AUTHORITY

SUPPLEMENTARY INFORMATION

REQUIRED BY THE CITY OF HOUSTON

JUNE 30, 2022

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
OPERATING AND CAPITAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2022

Category	Vendor	Budget	Actual Expenditures	Variance Positive (Negative)
ADMINISTRATION AND OVERHEAD				
Accounting	The Morton Accounting Serv.	\$ 12,000	\$ 15,031	\$ (3,031)
Administrative Consultant	Bracewell LLP and TIFWorks, LLC	50,000	46,545	3,455
Auditor	McCall Gibson Swedlund Barfoot PLLC	10,000	9,250	750
Tax Advisor	Equitax, Inc	2,000	12,528	(10,528)
Insurance	Texas Municipal League	1,000	1,248	(248)
Office Administration	Squidz Ink Design, City of Houston	4,000	6,409	(2,409)
SUBTOTAL		<u>\$ 79,000</u>	<u>\$ 91,011</u>	<u>\$ (12,011)</u>
PROGRAM AND PROJECT CONSULTANTS				
Engineering Consultant	Gauge Engineering	\$ 225,000	\$ 35,924	\$ 189,076
Planning Consultant	SWA Group	100,000	79,000	21,000
Legal Consultant	Bracewell LLP	20,000	30,177	(10,177)
SUBTOTAL		<u>\$ 345,000</u>	<u>\$ 145,101</u>	<u>\$ 199,899</u>
TOTAL MANAGEMENT CONSULTING SERVICES		<u>\$ 424,000</u>	<u>\$ 236,112</u>	<u>\$ 187,888</u>
CAPITAL EXPENDITURES				
Project T-2103: METRO Parcel Acquisition & Planning		\$ 59,000	\$ -	\$ 59,000
Project T-2104: 2600-3500 Blk Main St Pedestrian/Bicycle		27,500	4,995	22,505
Project T-2105: Pickney Street Hike & Bike Trail		605,000	132,443	472,557
Project T-2199: Concrete Panel & Sidewalk Replacement		25,000	-	25,000
TOTAL CAPITAL EXPENDITURES		<u>\$ 716,500</u>	<u>\$ 137,438</u>	<u>\$ 579,062</u>
DEVELOPER/PROJECT REIMBURSEMENTS				
CRV Hardy Yards: Roadway and Sidewalk Improvements		\$ 438,029	\$ 417,689	\$ 20,340

See accompanying independent auditor's report.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
PROJECT PLAN RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2022

	Project Plan Estimated Amount	Cumulative Expenditures as of the Fiscal Year Ended 2022	Variance Positive (Negative)
ESTIMATED PROJECT COSTS			
Roadway, Sidewalk and Landscape Improvements	\$ 37,692,000	\$ 13,166,287	\$ 24,525,713
Roadway, Sidewalk and Bridge Improvements	60,000,000		60,000,000
Public Utility Improvements	47,884,000	-	47,884,000
Parks, Plazas and Recreational Facilities	29,328,000	-	29,328,000
Land Cost	9,820,000	-	9,820,000
Affordable Housing	32,920,874	2,556,586	30,364,288
Financing Costs	1,700,000	-	1,700,000
Zone Creation and Administration	4,200,000	1,316,988	2,883,012
TOTAL ESTIMATED PROJECT COSTS	<u>\$ 223,544,874</u>	<u>\$ 17,039,861</u>	<u>\$ 206,505,013</u>

See accompanying independent auditor's report.

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY

OTHER SUPPLEMENTARY INFORMATION

JUNE 30, 2022

NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
BOARD OF DIRECTORS
JUNE 30, 2022

Authority Mailing Address - NEAR NORTHSIDE REDEVELOPMENT AUTHORITY
 C/O Bracewell LLP
 711 Louisiana Street, Suite 2300
 Houston, TX 77002-2770

Authority Telephone Number - (713) 223-2300

<u>Board Members</u>	<u>Position</u>
Edward Reyes	Chair/Investment Officer
Jorge Bustamante	Vice Chair
Sylvia Cavazos	Secretary
Elia Quiles	Assistant Secretary
Daniel Ortiz	Treasurer
Fernando Zamarripa	Director
Monte Large	Director

See accompanying independent auditor's report.

