

MONTROSE REDEVELOPMENT AUTHORITY

CITY OF HOUSTON, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

MONTROSE REDEVELOPMENT AUTHORITY

CITY OF HOUSTON, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montrose Redevelopment Authority
City of Houston, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Montrose Redevelopment Authority (the "Authority"), **a component unit of the City of Houston, Texas**, as of and for the year ended June 30, 2023, 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, 2023 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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 know information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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
Montrose 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. The supplementary 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 18, 2023

MONTROSE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023

Management's discussion and analysis of Montrose Redevelopment Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2023. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$7,921,019 (net position) as of June 30, 2023. This compares to the previous year when assets exceeded liabilities by \$8,886,324, showing a decrease of \$965,305 during the current fiscal year.
- The Authority's governmental funds reported a total ending fund balance of \$11,510,029 this year. This compares to the prior year fund balance of \$12,594,183 showing a decrease of \$1,084,154.

USING THIS ANNUAL REPORT

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

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.

MONTROSE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The Statement of Net Position is the government-wide statement of its financial position presenting information that includes all of the Authority's assets, liabilities, and, if applicable, deferred inflows and outflows of resources, 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 as a whole 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 operating activities 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.

MONTROSE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023

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, assets exceeded its liabilities by \$7,921,019 as of June 30, 2023.

The following table provides a summary of changes in the Authority's Statement of Net Position as of June 30, 2023, and June 30, 2022:

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2023</u>	<u>2022</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 12,052,232	\$ 13,143,655	\$ (1,091,423)
Due to Developer	\$ 3,589,010	\$ 3,707,859	\$ 118,849
Other Liabilities	542,203	549,472	7,269
Total Liabilities	\$ 4,131,213	\$ 4,257,331	\$ 126,118
Net Position:			
Restricted for Authorized Construction	\$	\$ 2,096,751	\$ (2,096,751)
Unrestricted	7,921,019	6,789,573	1,131,446
Total Net Position	\$ 7,921,019	\$ 8,886,324	\$ (965,305)

MONTROSE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of changes in the Authority's Statement of Activities for the fiscal years ending June 30, 2023, and June 30, 2022:

	Summary of Changes in the Statement of Activities		
	2023	2022	Change Positive (Negative)
Revenues:			
Tax Increment Revenue	\$ 5,203,067	\$ 4,480,128	\$ 722,939
Harris County Joint Project		2,284,056	(2,284,056)
Interest Revenue	342,433	17,972	324,461
Total Revenues	<u>\$ 5,545,500</u>	<u>\$ 6,782,156</u>	<u>\$ (1,236,656)</u>
Expenses:			
Professional Services	\$ 172,396	\$ 148,916	\$ (23,480)
Contract Services	323,796	139,153	(184,643)
Developer Reimbursement		3,707,859	3,707,859
Capital Outlay	5,822,875	4,718,569	(1,104,306)
Municipal Services	189,746	196,546	6,800
Other	1,992	1,091	(901)
Expenses for Services	<u>6,510,805</u>	<u>8,912,134</u>	<u>2,401,329</u>
Change in Net Position	\$ (965,305)	\$ (2,129,978)	\$ 1,164,673
Net Position, Beginning of Year	<u>8,886,324</u>	<u>11,016,302</u>	<u>(2,129,978)</u>
Net Position, End of Year	<u>\$ 7,921,019</u>	<u>\$ 8,886,324</u>	<u>\$ (965,305)</u>

FINANCIAL ANALYSIS OF THE AUTHORITY'S GOVERNMENTAL FUND

The Authority's governmental fund is the General Fund. As previously 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 \$11,510,029 of which \$11,510,029 is unassigned. This is a \$1,084,154 decrease compared to the prior year fund balance of \$12,594,183.

**MONTROSE REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of the Authority did not amend the budget for the current fiscal year. Actual net change in fund balances was \$39,824,010 less than budgeted primarily due to not receiving bond proceeds.

CAPITAL ASSETS

In the current fiscal year, the Authority recorded \$5,822,875 in capital expenditures on behalf of the City of Houston. The capital expenditures of the Authority are related to public works improvements. In accordance with Section VIII of the Tri-Party Agreement between the City of Houston, Reinvestment Zone Number Twenty-Seven and the Authority, it states: "all utilities, drainage facilities, public street improvements, sidewalks and light fixtures shall be conveyed to the City." Therefore, these assets are not recorded as capital assets of the Authority even though the Authority records the expenditures for the assets conveyed to the City.

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the Authority has recorded due to developers in the amount of \$3,589,010. During the current fiscal year, on August 17, 2022, the Authority paid \$118,849 to the Developer.

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 Montrose Redevelopment Authority, c/o Knudson, LP, Zone Administrator, 8588 Katy Freeway, Suite 441, Houston, TX 77024.

MONTROSE REDEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2023

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 9,895	\$	\$ 9,895
Investments	6,839,270		6,839,270
Due from City of Houston	5,203,067		5,203,067
TOTAL ASSETS	<u>\$ 12,052,232</u>	<u>\$ - 0 -</u>	<u>\$ 12,052,232</u>
 LIABILITIES			
Accounts Payable	\$ 542,203	\$	\$ 542,203
Due to Developers		3,589,010	3,589,010
TOTAL LIABILITIES	<u>\$ 542,203</u>	<u>\$ 3,589,010</u>	<u>\$ 4,131,213</u>
 FUND BALANCE			
Unassigned	\$ 11,510,029	\$ (11,510,029)	\$ - 0 -
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 12,052,232</u>		
 NET POSITION			
Unrestricted		<u>\$ 7,921,019</u>	<u>\$ 7,921,019</u>

The accompanying notes to the financial
statements are an integral part of this report.

MONTROSE REDEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023

Total Fund Balance - Governmental Fund \$ 11,510,029

Amounts reported for governmental activities in the Statement of Net Position are different because:

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 consist of:

Due to Developers	<u>(3,589,010)</u>
Total Net Position - Governmental Activities	<u>\$ 7,921,019</u>

The accompanying notes to the financial statements are an integral part of this report.

MONTROSE REDEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2023

	General Fund	Adjustments	Statement of Activities
REVENUES			
Tax Increment Revenue (Net of Retention for Administrative Costs of \$273,846)	\$ 5,203,067	\$	\$ 5,203,067
Investment Revenues	342,433		342,433
TOTAL REVENUES	\$ 5,545,500	\$ - 0 -	\$ 5,545,500
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 172,396	\$	\$ 172,396
Contracted Services	323,796		323,796
Insurance	868		868
Other	1,124		1,124
Municipal Services	189,746		189,746
Capital Outlay	5,822,875		5,822,875
Developer Reimbursement	118,849	(118,849)	
TOTAL EXPENDITURES/EXPENSES	\$ 6,629,654	\$ (118,849)	\$ 6,510,805
NET CHANGE IN FUND BALANCE	\$ (1,084,154)	\$ 1,084,154	\$
CHANGE IN NET POSITION		(965,305)	(965,305)
FUND BALANCE/NET POSITION - JULY 1, 2022	12,594,183	(3,707,859)	8,886,324
FUND BALANCE/NET POSITION - JUNE 30, 2023	\$ 11,510,029	\$ (3,589,010)	\$ 7,921,019

The accompanying notes to the financial
statements are an integral part of this report.

MONTROSE 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, 2023

Net Change in Fund Balance - Governmental Fund	\$ (1,084,154)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report developer reimbursements as expenditures. However, in the Statement of Net Position, developer payments are reported as a decrease in Due to Developer.

	<u>118,849</u>
Change in Net Position - Governmental Activities	<u>\$ (965,305)</u>

The accompanying notes to the financial statements are an integral part of this report.

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MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1. CREATION OF CORPORATION

The City of Houston, Texas (the “City”) authorized the creation of the Montrose Redevelopment Authority (the “Authority”) by the Resolution No. 2019-28 passed on August 14, 2019. The Authority was set up as a local government corporation pursuant to provisions of Chapter 431 of the Texas Transportation Code and Chapter 394 of the Texas Local Government 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 Reinvestment Zone Number Twenty-Seven (the “Zone”) and neighboring areas and to promote, develop, encourage and maintain housing, educational facilities, employment, commerce and economic development in the City. The Authority may issue bonds with consent of City Council. The Authority is managed by a Board of Directors consisting of seven members who are appointed by the Mayor with the approval of City Council.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic 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, (4) is there a financial benefit or burden relationship. The Authority was created as an instrumentality of the City of Houston (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.

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 position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- * 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 constraints placed on the use of assets through external constraints 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 governmental fund types 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. Any amounts recorded as due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. 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 Balances.

MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The Authority has one governmental fund and considers it to be a major fund.

General Fund – to account for the operating activities 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 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.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Budgeting

In compliance with the Tri-Party Agreement (See Note 4), the Authority’s board members adopted an unappropriated budget for the governmental funds of the Authority. The budget was not amended during the current fiscal year.

MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 imposed externally. The Authority does not have any restricted fund balances.

Committed: amounts that can be spent only for 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 not adopted a formal policy regarding the assignment of fund balances. The Authority does not have any assigned fund balances.

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.

MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2023, 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, 2023, as listed below:

	Cash
GENERAL FUND	\$ 9,895

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

MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. Authority’s investments must be made “with 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 District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all its portfolio assets at amortized cost. As a result, the District also 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, 2023, the Authority had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
GENERAL FUND					
TexPool	<u>\$ 6,839,270</u>	<u>\$ 6,839,270</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2023, the Authority’s investment in TexPool, an external investment pool, was rated AAAM by Standard & Poor’s.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District 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.

MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4. TRI-PARTY AGREEMENT

The City of Houston, Reinvestment Zone Number Twenty-Seven, and the Authority entered into the Tri-Party Agreement on September 11, 2019, pursuant to Ordinance No. 2019-0665. 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, planning and design and construction of infrastructure improvements and land acquisition.

The Tri-Party Agreement also allows the Authority to pledge the Contract Tax Increments allowing the Authority to issue bonds and notes, enter into obligations with developers or builders, and enter into contracts with consultants, in each case, to be paid from Contract Tax Increments. All bonds must be approved by the City Council and agreements must be approved by the City of Houston’s Chief Development Officer or their designee.

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 reserve of up to five percent of the monies then available in the Tax Increment Fund for administrative costs of the City. 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.

MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5. TAX INCREMENTS

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

The amount of the tax increment for a year is the amount of property taxes levied and collected by the City for that year on the Captured Appraised Value of real property taxable by the City and located in the Zone. The Captured Appraised Value of real property taxable by the City for a year is the total appraised value of all real property taxable by the City 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 City and located in the Zone on January 1 of the year in which the Zone was designated as such pursuant of Chapter 311 of the Texas Tax Code (the "TIRZ 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 the City and located in the annexed area on January 1 of the year of annexation. The City is not required to deposit tax increments derived from property annexed into the Zone unless the City has agreed to do so.

The City is required to collect taxes on property located with the Zone in the same manner as other taxes are collected. The City 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 City's property taxes.

NOTE 6. CITY OF HOUSTON TAX INCREMENTS

Pursuant to City Ordinance No. 99-1331, 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.

During the current fiscal year, tax increments of \$5,476,913 were collected by the City of Houston of which \$273,846 was withheld to cover administrative costs.

NOTE 7. CAPITAL EXPENDITURES

During the current fiscal year, the Authority recorded \$5,822,875 for capital improvements on behalf of the City of Houston. These expenditures are related to capital improvements made by the Authority to City of Houston facilities. The Authority finances these facilities for the benefit of the City. Any capital assets the Authority purchases related to public improvements and facilities have been conveyed to the City of Houston. See pages 27 and 28 for information on current year capital improvement expenditures.

MONTROSE REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8. DEVELOPMENT AGREEMENT

On April 20, 2020, the Authority, Reinvestment Zone Number Twenty-Seven (the “Zone”) and Montrose Collective Owner, LP (the “Developer”) entered into the Development Agreement. The Developer has acquired plans and plans to develop, a mixed-use project, including office and retail, which includes an underground parking garage. The Developer is authorized by the Zone and Authority to design and construct these public improvements as described in this agreement. Upon completion of the public improvements, the Developer shall provide the auditor an accounting of all costs within six months after the final completion. The Authority will review and approve for reimbursement to the Developer each eligible cost. Once each year after completion, the Authority shall apply the property increment received from the public improvements to the amount reimbursable to the Developer up to the maximum reimbursement of \$3,707,859. As of June 30, 2023, \$3,589,010 has been recorded as due to developers in the Statement of Net Position in relation to this agreement. On August 17, 2022, the Authority paid \$118,849 to the Developer.

NOTE 9. 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’s 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. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 10. BOND SALE

Subsequent to year end, on July 20, 2023, the Authority closed on the sale of its \$14,965,000 Tax Increment Contract Revenue Bonds, Series 2023. The proceeds of the bond sale will be used to fund project costs in accordance with the Amended Project and Financing Plan; make a deposit to the Debt Service Reserve Fund; and to cover issuance costs of the bonds.

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MONTROSE REDEVELOPMENT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023

MONTROSE REDEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL –GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Tax Increment Revenue	\$ 5,162,921	\$ 5,203,067	\$ 40,146
Grant Proceeds	3,670,000		(3,670,000)
Interest Income		342,433	342,433
Miscellaneous Revenues	<u>50,000</u>		<u>(50,000)</u>
TOTAL REVENUES	<u>\$ 8,882,921</u>	<u>\$ 5,545,500</u>	<u>\$ (3,337,421)</u>
EXPENDITURES			
Maintenance and Operations	\$ 424,000	\$ 498,184	\$ (74,184)
Municipal Services	196,546	189,746	6,800
Capital Improvements	9,522,519	5,822,875	3,699,644
Developer Reimbursement		<u>118,849</u>	<u>(118,849)</u>
TOTAL EXPENDITURES	<u>\$ 10,143,065</u>	<u>\$ 6,629,654</u>	<u>\$ 3,513,411</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (1,260,144)</u>	<u>\$ (1,084,154)</u>	<u>\$ 175,990</u>
OTHER FINANCING SOURCES(USES)			
Long-Term Debt Issued	<u>\$ 40,000,000</u>	<u>\$ - 0 -</u>	<u>\$ (40,000,000)</u>
NET CHANGE IN FUND BALANCE	\$ 38,739,856	\$ (1,084,154)	\$ (39,824,010)
FUND BALANCE - JULY 1, 2022	<u>12,594,183</u>	<u>12,594,183</u>	
FUND BALANCE - JUNE 30, 2023	<u>\$ 51,334,039</u>	<u>\$ 11,510,029</u>	<u>\$ (39,824,010)</u>

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MONTROSE REDEVELOPMENT AUTHORITY

SUPPLEMENTARY INFORMATION

REQUIRED BY CITY OF HOUSTON

JUNE 30, 2023

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MONTROSE REDEVELOPMENT AUTHORITY
OPERATING EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2023

Category	Vendor	Budget
ADMINISTRATION AND OVERHEAD		
Administration Consultant	Knudson, LP	\$ 72,000
Insurance	TML Intergovernmental Risk Pool	5,000
Bookkeeping	ETI Bookkeeping Services	19,000
Board Development		5,000
Auditor	MGSB PLLC/Burton Accounting	10,000
Tax Roll Management	Equi-Tax Inc.	8,000
Office Expenses		
SUBTOTAL		<u>\$ 119,000</u>
PROGRAM AND PROJECT CONSULTANTS		
Engineering Consultants	Gauge Engineering	\$ 50,000
Affordable Housing Consultants	January Advisors LLC	70,000
Legal-General Counsel	Allen Boone Humphries Robinson LLP	120,000
Planning Consultants	The Goodman Corp.	50,000
Public Engagement Expenses	Elsquared Media Group	<u>15,000</u>
SUBTOTAL		<u>\$ 305,000</u>
TOTAL MANAGEMENT CONSULTING SERVICES		<u>\$ 424,000</u>
Municipal Services Charge	City of Houston	<u>\$ 196,546</u>
TOTAL OPERATING EXPENDITURES		<u><u>\$ 620,546</u></u>
DEVELOPER/PROJECT REIMBURSEMENTS		<u><u>\$ - 0 -</u></u>

<u>Actual Expenditure</u>	<u>Variance Positive (Negative)</u>
\$ 74,590	\$ (2,590)
868	4,132
20,657	(1,657)
	5,000
16,000	(6,000)
7,630	370
<u>1,124</u>	<u>(1,124)</u>
<u>\$ 120,869</u>	<u>\$ (1,869)</u>
\$ 32,257	\$ 17,743
	70,000
124,139	(4,139)
211,343	(161,343)
<u>9,576</u>	<u>5,424</u>
<u>\$ 377,315</u>	<u>\$ (72,315)</u>
<u>\$ 498,184</u>	<u>\$ (74,184)</u>
<u>\$ 189,746</u>	<u>\$ (6,800)</u>
<u>\$ 687,930</u>	<u>\$ (80,984)</u>
<u>\$ 118,849</u>	<u>\$ (118,849)</u>

MONTROSE REDEVELOPMENT AUTHORITY
CAPITAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2023

Category	Vendor	Budget
Project T-2702 Waugh/Commonwealth/Yoakum Project		
Planning and Design	Gauge Engineering	\$ 60,000
Construction	Reytec Construction Resources/ Trees for Houston	3,325,000
Project T-2703 Localized Micro-Improvement Project		
Construction		180,209
Project T-2705 Walk/Bike Montrose		
Planning		29,000
Project T-2706 Partnership with METRO for Montrose Blvd		
Design	Gauge Engineering	1,170,000
Project T-2707 Hawthorne Neighborhood Safe Street		
Planning and Design	Gauge Engineering	135,000
Construction	R. Miranda Trucking & Construction	1,300,000
Project T-2708 Woodhead Neighborhood Safe Street		
Planning and Design	Gauge Engineering	195,000
Construction	R. Miranda Trucking & Construction	1,200,000
Project T-2709 Dallas Bikeway		
Planning and Acquisition	Gauge Engineering	50,000
Construction		100,000
Project T-2712 Mandell Bikeway		
Planning and Design	Gauge Engineering	
Project T-2714 BCycle		
Construction		135,000
Project T-2715 Affordable Housing Projects		
Planning		500,000
Project T-2716 Safe Route to School Sidewalk Program		
Design	Gauge Engineering	250,000
Construction	R. Miranda Trucking & Construction	
Project T-2717 W Alabama Street		
Design	Gauge Engineering	
Construction		293,310
Project T-2718 West Gray from Woodhead to Montrose Blvd.		
Design	Gauge Engineering	
Project T-2799 Safe Sidewalk Program		
Design	Gauge Engineering	100,000
Construction		500,000
		<u>\$ 9,522,519</u>

<u>Actual Expenditure</u>	<u>Variance Positive (Negative)</u>
\$ 23,567	\$ 60,000 3,301,433
	180,209
	29,000
1,030,055	139,945
191,681	(56,681)
1,900,013	(600,013)
191,681	3,319
1,900,013	(700,013)
52,423	(2,423) 100,000
114,767	(114,767)
	135,000
	500,000
56,317	193,683
35,350	(35,350)
169,801	(169,801) 293,310
154,697	(154,697)
2,510	97,490 500,000
<u>\$ 5,822,875</u>	<u>\$ 3,699,644</u>

MONTROSE REDEVELOPMENT AUTHORITY
PROJECT PLAN RECONCILIATION
AS OF THE YEAR ENDED JUNE 30, 2023

	Project Plan Estimated Amount	Cumulative Expenditures as of the Fiscal Year Ended 2023	Variance Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
Project Costs			
Capital Costs:			
Corridor Improvements	\$ 108,594,133	\$ 12,396,053	\$ 96,198,080
Workforce/Affordable Housing	39,600,000		39,600,000
Parking Enhancements	4,830,000		4,830,000
Parks, Recreational Facilities, Cultural Ammenities	8,000,000		8,000,000
Zone Administration/Professional Services	<u>6,000,000</u>	<u>3,359,285</u>	<u>2,640,715</u>
Total Project Costs	<u>167,024,133</u>	<u>15,755,338</u>	<u>151,268,795</u>

MONTROSE REDEVELOPMENT AUTHORITY

OTHER SUPPLEMENTARY INFORMATION

JUNE 30, 2023

MONTROSE REDEVELOPMENT AUTHORITY
BOARD MEMBERS AND CONSULTANTS
JUNE 30, 2023

District Mailing Address - Montrose Redevelopment Authority
8588 Katy Freeway, Suite 441
Houston, TX 77024

District Telephone Number - (713) 463-8200

Board Members	Position
Lisa Hunt	1 – Secretary
Abby Noebels	2
Joe Douglas Webb	3 – Chair
Eureka Gilkey	4
Amanda Flores	5
Jeffery Watters	6
Ray Valdez	7– Vice Chair

Zone Administrator

Knudson, LP
8588 Katy Freeway, Suite 441
Houston, TX 77024

See accompanying independent auditor’s report.

