

**MEMORIAL-HEIGHTS  
REDEVELOPMENT AUTHORITY**

**Annual Financial Statements  
and  
Supplementary Information**

**June 30, 2023  
(With Independent Auditor's Report Thereon)**



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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Memorial-Heights Redevelopment Authority  
City of Houston, Texas

**Opinions**

We have audited the accompanying financial statements of the governmental activities and each major fund of Memorial-Heights 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 each 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.





### **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 and *Government 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 and *Government 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 – All Combined Governmental Funds 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  
Memorial-Heights 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 schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide an 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

September 28, 2023



# **MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE YEAR ENDED JUNE 30, 2023**

The discussion and analysis of Memorial-Heights Redevelopment Authority's (Authority or MHRA) financial statements provide an overview of the Authority's financial performance during the years ended June 30, 2023, and 2022. This discussion and analysis includes comparative data for the year ended June 30, 2023, with the year ended June 30, 2022, with a brief explanation for significant changes between fiscal years. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and currently known facts, please read in conjunction with the Authority's financial statements and footnotes.

#### **HIGHLIGHTS**

- Since its creation in 1996, Reinvestment Zone Number Five, City of Houston (Zone) has seen an increase in taxable value. As of tax year 2022, the projected taxable value was approximately \$2,989,698,945. This increase in value of \$1,978,018,723 over the base year value of \$1,011,680,222 was due to multiple factors including annexation of territory into the boundaries of the Zone and subsequent development of multi-family development and commercial projects in the Zone.
- The Authority recorded its annual Municipal Services Payment to the City of Houston in the amount of \$155,560.
- During Fiscal Years 2018, 2019, and 2020 MHRA continued work on the Shepherd/Durham Streets Reconstruction Project and has successfully obtained grant funding. During Fiscal Year 2021, MHRA completed design of Phase 1 (15<sup>th</sup> Street to 610) and started design on Phase 2 (15<sup>th</sup> Street to I-10). Construction of Phase 1 began in May of 2022. Construction of Phase 2 is expected to start in the Summer of 2024.
- Construction for the Bicycle and Pedestrian facilities at the intersection of Washington/Center and Heights, improvements to the MKT Trail, a section of the trail connection between the White Oak Bayou Trail and Memorial Park, and restriping of West Dallas between Dunlavy and Waugh to add bicycle facilities has been completed.
- The Authority has been successful with several Highway Safety Improvement Program (HSIP) grants. These include Yale at Center, 19<sup>th</sup> and Beall Area, and the Waugh, South Heights, Yale and Waughford area.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

Under Governmental Accounting Standards Board (GASB) Statement No. 34, the Authority qualifies as a special purpose government with one program – redevelopment of the Memorial-Heights Area, an area in central Houston consisting of commercial and recreational corridors within an area generally bounded by IH-610 to the North and West, IH-45 to the East, and West Clay Street to the South (the “Memorial-Heights Area”). GASB Statement No. 34 allows such entities to combine the fund financial statements and the government-wide financial statements rather than presenting separate statements.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

Government-wide statements report information about the Authority as a whole using accounting methods similar to those used in private-sector companies. The Statement of Net Position includes all of the Authority’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The fund financial statements report information about the Authority on the modified accrual basis, which only accounts for revenues that are measurable and available within the current period or soon enough thereafter to pay liabilities of the current period. Adjustments are provided to reconcile the government-wide statements to the fund statements. Explanations for reconciling items in the “Adjustments” column are provided on the face of the statements.

**STATEMENT OF NET POSITION**

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. The Authority’s cash deposits are collateralized by pledged securities. For a more detailed analysis of assets and liabilities, see the notes to the financial statements. The following table reflects condensed information (rounded to the nearest thousand) on the Authority’s net position at June 30:

	Summary of Changes in the Statement of Net Position		
	2023	2022	Change Positive (Negative)
<b>ASSETS:</b>			
Cash and Investments	\$ 48,000,000	\$ 54,465,000	\$ (6,465,000)
Tax Increments Receivable	11,902,000	9,349,000	2,553,000
Grants Receivable	3,435,000	-	3,435,000
<b>TOTAL ASSETS</b>	<u>\$ 63,337,000</u>	<u>\$ 63,814,000</u>	<u>\$ (477,000)</u>
<b>LIABILITIES:</b>			
Due to Developer	\$ 22,099,000	\$ 1,776,000	\$ (20,323,000)
Long -Term Liabilities	39,949,000	40,935,000	986,000
Other Liabilities	5,420,000	1,861,000	(3,559,000)
<b>TOTAL LIABILITIES</b>	<u>\$ 67,468,000</u>	<u>\$ 44,572,000</u>	<u>\$ (22,896,000)</u>
Net Position:			
Restricted	\$ 1,929,000	\$ 1,902,000	\$ 27,000
Unrestricted	(6,060,000)	17,340,000	(23,400,000)
<b>TOTAL NET POSITION</b>	<u>\$ (4,131,000)</u>	<u>\$ 19,242,000</u>	<u>\$ (23,373,000)</u>

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

**STATEMENT OF ACTIVITIES**

The Statement of Activities presents the operating results of the Authority. The following table reflects condensed information on the Authority's operations for the years ended June 30:

	Summary of Changes in the Statement of Activities		
	2023	2022	Change Positive (Negative)
<b>REVENUES:</b>			
Tax Increment Revenue	\$ 12,528,000	\$ 9,840,000	\$ 2,688,000
Interest Revenue	1,801,000	77,000	(1,724,000)
Contribution by Others	9,537,000	-	9,537,000
<b>TOTAL REVENUES</b>	<b>\$ 23,866,000</b>	<b>\$ 9,917,000</b>	<b>\$ 10,501,000</b>
<b>EXPENSES:</b>			
Project Cost	\$ 24,148,000	\$ 5,773,000	\$ (18,375,000)
Other Costs	782,000	651,000	(131,000)
Support Services	394,000	309,000	(85,000)
Loan Costs	1,171,000	995,000	(176,000)
<b>TOTAL EXPENSES</b>	<b>\$ 26,495,000</b>	<b>\$ 7,728,000</b>	<b>\$ (18,767,000)</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>\$ (2,629,000)</b>	<b>\$ 2,189,000</b>	<b>\$ (8,266,000)</b>
<b>OTHER FINANCING USES</b>	<b>\$ (20,744,000)</b>	<b>\$ -0-</b>	<b>\$ (20,744,000)</b>
<b>CHANGE IN NET POSITION NET POSITION, BEGINNING OF YEAR</b>	<b>\$ (23,373,000)</b>	<b>\$ 2,189,000</b>	<b>\$ (25,562,000)</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ (4,131,000)</b>	<b>\$ 19,242,000</b>	<b>\$ (23,373,000)</b>

**Tax Increments**

The City has agreed, subject to certain limitations, to deposit to the Tax Increment Fund established for the Authority, a certain percentage of tax collections arising from their taxation of the increase, if any, in the appraised value of real property located in the Zone since a designated base year. The City remits its tax increments on an annual basis.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

**Capital Assets**

The Authority had no capital assets as of June 30, 2023. Under the Development Agreements, the Authority oversees the construction of certain public improvements in the Memorial-Heights Areas. Upon completion and inspection by the Authority’s consultants and the City’s inspectors, the public improvements are automatically conveyed to the City. Thus, although it may have obligations to reimburse construction participants, including developers, for the public improvements, the Authority never holds title to any public improvements.

**Debt**

As of June 30, 2023, the Authority had outstanding bonds totaling \$38,190,000. As of June 30, 2023, the Authority owed developers \$22,098,653. The Series 2021 Tax Increment Contract Bonds carry an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The above ratings reflect changes if any through June 30, 2023.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Authority’s overall final budget for 2023 was in excess of \$72.9 million dollars. Actual tax increments and other income received were more than budgeted. Total expenditures were less than budgeted. See the budget to actual comparison on page 22.

**CURRENT AND FUTURE PROJECTS**

The Authority is undertaking or considering the following projects in the Memorial Heights Area, including:

- Planning studies to evaluate the infrastructure requirements for the remaining Shepherd/Durham cross streets, 18<sup>th</sup> 19<sup>th</sup>, and 20<sup>th</sup> west of Durham and 8<sup>th</sup> street south to White Oak Bayou east of Shepherd.
- Shepherd/Durham Streets Reconstruction Project including selected cross streets between Shepherd and Durham
- Yale and Center Street Intersection Signalization Improvements
- Participating with the City of Houston, TxDOT, and the Harris County Flood Control District to develop and construct the North Canal Flood Control Project
- Pedestrian improvements at Shepherd and Memorial
- Improvements at Little Thicket Park and Stude Park
- Zone-wide small drainage improvements
- Zone-wide mobility and safety improvements
- Safety improvement at 19<sup>th</sup> street between Bevis and Beall
- Safety and mobility improvements at Waugh, South Heights, Yale and Waughford
- Sidewalk and bicycle facility improvements in Congressional District 7

This financial report is designed to provide a general overview of the Memorial-Heights Redevelopment Authority’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to John Kuhl, Attorney, SKLaw, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056.



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**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**JUNE 30, 2023**

	General Fund	Capital Projects Fund
<b>ASSETS</b>		
Cash	\$ 432,733	\$
Investments	14,160,002	33,407,508
Tax Increment Receivable	11,901,586	
Grant Receivable	3,435,274	
Due from Developer		
Due from Other Funds	15,329,795	
<b>TOTAL ASSETS</b>	<b>\$ 45,259,390</b>	<b>\$ 33,407,508</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 4,329,605	\$
Accrued Interest Payable		
Due to Developer		
Due to Other Funds		15,329,795
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
<b>TOTAL LIABILITIES</b>	<b>\$ 4,329,605</b>	<b>\$ 15,329,795</b>
<b>FUND BALANCES</b>		
Restricted for Authorized Construction	\$	\$ 18,077,713
Restricted for Debt Service	2,139,796	
Unassigned	38,789,989	
<b>TOTAL FUND BALANCES</b>	<b>\$ 40,929,785</b>	<b>\$ 18,077,713</b>
<b>TOTAL LIABILITIES</b>		
<b>AND FUND BALANCES</b>	<b>\$ 45,259,390</b>	<b>\$ 33,407,508</b>
<b>NET POSITION</b>		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 432,733	\$	\$ 432,733
47,567,510		47,567,510
11,901,586		11,901,586
3,435,274		3,435,274
<u>15,329,795</u>	<u>(15,329,795)</u>	<u></u>
<u>\$ 78,666,898</u>	<u>\$ (15,329,795)</u>	<u>\$ 63,337,103</u>
\$ 4,329,605	\$	\$ 4,329,605
	210,579	210,579
	22,098,653	22,098,653
15,329,795	(15,329,795)	
	880,000	880,000
	39,948,682	39,948,682
<u>\$ 19,659,400</u>	<u>\$ 47,808,119</u>	<u>\$ 67,467,519</u>
\$ 18,077,713	\$ (18,077,713)	\$
2,139,796	(2,139,796)	
38,789,989	(38,789,989)	
<u>\$ 59,007,498</u>	<u>\$ (59,007,498)</u>	<u>\$ - 0 -</u>
<u>\$ 78,666,898</u>		
	\$ 1,929,217	\$ 1,929,217
	<u>(6,059,633)</u>	<u>(6,059,633)</u>
	<u>\$ (4,130,416)</u>	<u>\$ (4,130,416)</u>

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

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2023**

Total Fund Balances - Governmental Funds \$ 59,007,498

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 Developer	\$ (22,098,653)	
Accrued Interest Payable	(210,579)	
Due Within One Year	(880,000)	
Due After One Year	<u>(39,948,682)</u>	<u>(63,137,914)</u>

Total Net Position - Governmental Activities \$ (4,130,416)

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

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**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2023**

	General Fund	Capital Projects Fund
<b>REVENUES:</b>		
Tax Increment Revenue	\$ 12,527,985	\$
Grant and Miscellaneous Revenues	9,537,402	
Investment Revenues	651,822	1,149,594
<b>TOTAL REVENUES</b>	<b>\$ 22,717,209</b>	<b>\$ 1,149,594</b>
<b>EXPENDITURES/EXPENSES:</b>		
Service Operations:		
Municipal Services	\$ 155,560	
Administrative Fees-Transfer	626,399	
Project Cost	14,867,607	9,280,717
Administrative Consultant	105,321	
Accounting and Legal Fees	91,799	
Developer Reimbursement	420,490	
Other Consultants	182,834	
Other Cost	14,250	
Debt Service:		
Loan Principal	835,000	
Bond Interest	1,284,350	
Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 18,583,610</b>	<b>\$ 9,280,717</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>		
<b>OVER EXPENDITURES/EXPENSES</b>	<b>\$ 4,133,599</b>	<b>\$ (8,131,123)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In(Out)	\$ 5,330,205	\$ (5,330,205)
Developer Contributions		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 5,330,205</b>	<b>\$ (5,330,205)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 9,463,804</b>	<b>\$ (13,461,328)</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION -</b>		
<b>JULY 1, 2022</b>	<b>31,465,981</b>	<b>31,539,041</b>
<b>FUND BALANCES/NET POSITION -</b>		
<b>JUNE 30, 2023</b>	<b>\$ 40,929,785</b>	<b>\$ 18,077,713</b>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 12,527,985	\$	\$ 12,527,985
9,537,402		9,537,402
<u>1,801,416</u>		<u>1,801,416</u>
<u>\$ 23,866,803</u>	<u>\$ - 0 -</u>	<u>\$ 23,866,803</u>
\$ 155,560	\$	\$ 155,560
626,399		626,399
24,148,324		24,148,324
105,321		105,321
91,799		91,799
420,490	(420,490)	
182,834		182,834
14,250		14,250
835,000	(835,000)	
1,284,350	(113,335)	1,171,015
<u>27,864,327</u>	<u>(1,368,825)</u>	<u>26,495,502</u>
<u>\$ (3,997,524)</u>	<u>\$ 1,368,825</u>	<u>\$ (2,628,699)</u>
\$	\$	\$
	(20,743,589)	(20,743,589)
<u>\$ -0-</u>	<u>\$ (20,743,589)</u>	<u>\$ (20,743,589)</u>
\$ (3,997,524)	\$ 3,997,524	\$
	(23,372,288)	(23,372,288)
<u>63,005,022</u>	<u>(43,763,150)</u>	<u>19,241,872</u>
<u>\$ 59,007,498</u>	<u>\$ (63,137,914)</u>	<u>\$ (4,130,416)</u>

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

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2023**

Net Change in Fund Balances - Governmental Funds \$ (3,997,524)

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

Governmental funds report loan principal payments as expenditures. However, in the Statement of Net Position, loan principal payments are reported as decreases in long-term liabilities. 835,000

Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. 113,335

Governmental funds report developer contributions, net any amount paid to the developer, as other financing uses. Developer contributions increase long-term liabilities in the Statement of Net Position. (20,323,099)

Change in Net Position - Governmental Activities \$ (23,372,288)

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



**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 1. DESCRIPTION OF ORGANIZATION**

**Description of Organization**

Memorial-Heights Redevelopment Authority (the Authority) is a nonprofit local government corporation, incorporated December 11, 1997 under the laws of the State of Texas, and operating under Chapter 431, Texas Transportation Code. On December 10, 1997, the City of Houston (the City) adopted Resolution No. 97-67, which authorized the Authority to aid, assist and act on behalf of the City, in the performance of the City's obligation with respect to Reinvestment Zone Number Five, City of Houston, Texas (Memorial-Heights TIRZ or TIRZ).

**City of Houston Reinvestment Zone Number Five**

Memorial-Heights TIRZ was created pursuant to Chapter 311, Texas Tax Code, by City Ordinance No. 96-1337, effective December 24, 1996, as a tax incremental reinvestment zone. The TIRZ is authorized to provide new capital for public works and public improvements in specified corridors and areas in the Memorial-Heights Area. The TIRZ will provide a source of funding through the tax increments generated by redevelopment of those areas within the Memorial-Heights TIRZ.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements represent all of the funds of Memorial-Heights Redevelopment Authority. The Authority is a component unit of the City of Houston. Component units are legally separate entities for which the primary government is financially accountable. There are no separate legal entities that are a part of the Authority's reporting entity.

**Tax Increments and Participation Agreements**

The City has agreed to deposit to the Tax Increment Fund established for the TIRZ (the Tax Increment Fund) a certain percentage of the tax collections arising from its taxation of the increase, if any, in the appraised value of real property located in the TIRZ since January 1, 1996 (the Tax Increments). The City is required to collect taxes on real property located within the TIRZ in the same manner as other taxes are collected by the City. The City is then required to pay the Tax Increment Fund the Tax Increments, as agreed upon in accordance with the City's agreement with the TIRZ (the Participation Agreement). Thus, Tax Increments are due to be deposited from the Tax Increment Fund to the Authority's account by the end of each quarter in which they are collected in the Tax Increment Fund. The City has agreed to pay 100% of their Tax Increments to the Tax Increment Fund. During the current fiscal year, tax increments of \$12,527,985 were collected by the City of which \$626,399 was withheld to cover administrative costs.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus and Basis of Accounting:**

**Government-Wide Financial Statement**

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. The Statement of Net Position and the Statement of Activities were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental activities are those financed through taxes, intergovernmental revenues, and other non-exchange revenues and are usually reported in governmental and internal service funds. Business activities are financed in whole or in part through fees charged for goods or services to the general public and are usually reported in proprietary funds. The Authority does not have any business-type activities.

**Fund Financial Statements**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and have been prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction that can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Authority considers all revenue available if it is collected within 60 days after the year end. Expenditures are recorded when the related fund liability is incurred. The Authority only has two major funds, the General Fund, which accounts for resources not required to be accounted for in another fund, tax increment revenues, costs and general expenditures, and the Capital Projects Fund to account for resources restricted, committed or assigned for acquisition or construction of facilities and related costs. As of June 30, 2023, the Capital Projects Fund owes the General Fund \$15,329,795 for capital expenditures previously made by the General Fund. During the current year, the Capital Projects Fund transferred \$5,330,205 to the General Fund for capital expenditures previously made by the General Fund.

**Fund Balances**

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.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus and Basis of Accounting: (Continued)**

**Fund Balances (Continued)**

*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 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 an expenditure is 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.

**Federal Income Taxes**

The Authority is exempt from Federal income taxes as an organization described in Section 501(c) (3) of the Internal Revenue Code. Under Section 6501 (c) (4), the Authority has also requested an advance ruling allowing it to be treated as a publicly supported organization under Section 170 (b) (1) (A) (vi) of the Internal Revenue Code. Furthermore, as an adjunct of local government, the Authority is exempt from Federal income taxes under Section 115 (2) of the Internal Revenue Code and qualifies as a publicly supported organization within the meaning of Section 509 (a) of the Internal Revenue Code.

**Use of Estimates**

The preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual result could differ from those estimates.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**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 Funds Balance Sheet and the Statement of Net Position at June 30, 2023, as listed below:

	<u>Cash</u>
GENERAL FUND	<u>\$ 432,733</u>

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. 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.

The Board of Directors has adopted a written investment policy regarding the investments of its funds as defined in the Public Funds Investment Act of 1997 (Chapter 2256, Texas Government Code). Such investment include (1) obligations of the United States or its agencies; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies; (4) certificates of deposit, and (5) commercial paper that complies with the Public Funds Investment Act.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the Authority also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

The Authority invests in Goldman Sachs Financial Square Government Fund-Institutions Share (FGTXX). The fund normally invests at least 99.5% of the fund's total assets in cash, U.S. Government securities and/or repurchase agreements that are fully collateralized. The fund invests in compliance with industry-standard regulatory requirements for money market funds for the quality, maturity, liquidity and diversification of investments. The fund seeks to maintain a net asset value (NAV) of \$1.00 per share. NAV is calculated daily. The fund's assets are managed by Goldman Sachs Liquidity Solutions Team.

As of June 30, 2023, the Authority had the following investments and maturities:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities in Less Than 1 Year</u>
<u>GENERAL FUND</u>		
TexPool	\$ 12,020,206	\$ 12,020,206
FGTXX	2,139,796	2,139,796
<u>CAPITAL PROJECTS FUND</u>		
FGTXX	<u>33,407,508</u>	<u>33,407,508</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$47,567,510</u></b>	<b><u>\$47,567,510</u></b>

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, and FGTXX were 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 Authority considers the investment in TexPool and FGTXX 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.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 4. LONG-TERM DEBT**

A summary of changes in the Authority's long-term debt follows:

	July 1, 2022	Additions	Retirements	June 30, 2023
Loans Payable	\$ 39,025,000	\$	\$ 835,000	\$ 38,190,000
Unamortized Discounts	<u>2,745,057</u>	<u></u>	<u>106,375</u>	<u>2,638,682</u>
Total Long-Term Liabilities	<u>\$ 41,770,057</u>	<u>\$ -0-</u>	<u>\$ 941,375</u>	<u>\$ 40,828,682</u>
		Amount Due Within One Year		\$ 880,000
		Amount Due After One Year		<u>39,948,682</u>
		Total Long-Term Liabilities		<u>\$ 40,828,682</u>

The Authority's bonds payable at June 30, 2023, consist of the following:

	Series 2021 Tax Increment Contract Revenue Bonds
Amounts Outstanding – June 30, 2023	\$ 38,190,000
Interest Rates	2.0% - 5.0%
Due Dates – Serially Beginning/Ending	September 1, 2023/2048
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2030*

\* Or on any date thereafter in whole or in part at a price of par plus accrued interest on the date of redemption. Series 2021 term bonds maturing September 1, 2039, September 1, 2043, and September 1, 2048 are subject to mandatory redemption on September 1, 2038, September 1, 2040, and September 1, 2044, respectively.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 4. LONG-TERM DEBT (Continued)**

As of June 30, 2023, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 880,000	\$ 1,241,475	\$ 2,121,475
2025	925,000	1,196,350	2,121,350
2026	970,000	1,148,975	2,118,975
2027	1,020,000	1,099,225	2,119,225
2028	1,075,000	1,046,850	2,121,850
2029-2033	6,210,000	4,402,525	10,612,525
2034-2038	7,225,000	3,385,256	10,610,256
2039-2043	8,230,000	2,380,200	10,610,200
2044-2048	9,565,000	1,048,125	10,613,125
2049	2,090,000	31,350	2,121,350
	<u>\$ 38,190,000</u>	<u>\$ 16,980,331</u>	<u>\$ 55,170,331</u>

**NOTE 5. DEVELOPER ADVANCES AND INTEREST PAYABLE**

The Authority has also entered into a reimbursement agreement with Regent Square AB LLC, Regent Square CD LLC, and AH Borrower LLC (Regent). In 2012, a partial assignment of the reimbursement agreement was made by Regent to Sovereign Regent Square LLC (Sovereign). In accordance with the reimbursement agreement, Regent and Sovereign have agreed to fund on behalf of the Authority certain design and construction costs for public infrastructure improvements in connection with a mixed-use development. As of June 30, 2023, the Developer has reported expenditures of \$71,676,614, of which \$3,211,252 is reimbursable under the agreement. This amount, less \$1,435,698 reimbursed in prior fiscal years and \$420,490 reimbursed in the current fiscal year, is recorded as Due to Developer in the Statement of Net Position.

During 2019 MHRA entered into a Development Agreement which will improve the intersections at Allen Parkway and a new public street within the development, at Dallas and the new public street, Shepherd and Allen Parkway, Shepherd and Memorial, West Dallas and Shepherd. Marston Street will be extended to Allen Parkway and a new street will be constructed from Allen Parkway to West Dallas. Streetscapes will be improved on Marston, the new public street, West Dallas, Shepherd, Allen Parkway, Tirell and West Dallas. The work on West Dallas will include separated bike lanes. As of June 30, 2023, the Developer has reported expenditures of \$21,722,098 of which \$20,743,589 is reimbursable under the agreement. This amount is recorded as Due to Developer in the Statement of Net Position.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 6. 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 7. BUILD GRANT**

On September 9, 2021, the Authority was awarded a \$25 million Better Utilizing Investments to Leverage Development (BUILD) FY 2019 Discretionary Grant. These grant funds will be matched with \$25 million of local funds by the Authority to build Phase I of the project to reconstruct Shepherd and Durham from approximately 15<sup>th</sup> Street to I-610. On February 18, 2022, the grant agreement was amended to extend the period of performance from March 31, 2025 to August 24, 2025, to amend the planned construction start date from October 1, 2021 to February 21, 2022, and to require local matching funding of \$34,597,586 rather than \$25 million. As of June 30, 2023, the Authority has expended \$30,881,620, of which \$22,941,598 was expended in the current year. During the year ended June 30, 2023, the Authority received BUILD grant reimbursements of \$9,537,402. Of that amount, \$718,873 reimbursed expenditures in a prior year.



**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE – ALL COMBINED GOVERNMENTAL**  
**FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

	All Combined Governmental Funds		
	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Budgetary Fund Balance - Beginning of Year</b>	\$ 62,290,956	\$ 63,005,022	\$ 714,066
<b>Resources:</b>			
Tax Increments	\$ 10,642,697	\$ 12,527,985	\$ 1,885,288
Grant and Miscellaneous Revenues		9,537,402	9,537,402
Investment Revenues	29,210	1,801,416	1,772,206
<b>Total Available Resources</b>	\$ 72,962,863	\$ 86,871,825	\$ 13,908,962
<b>Expenditures:</b>			
Maintenance and Operations	\$ 650,000	\$ 394,204	\$ 255,796
Capital Expenditures and Developer	31,540,000	24,568,814	6,971,186
Transfers	692,787	781,959	(89,172)
Debt Service	2,119,350	2,119,350	
<b>Total Expenditures</b>	\$ 35,002,137	\$ 27,864,327	\$ 7,137,810
<b>Budgetary Fund Balance - End of Year</b>	\$ 37,960,726	\$ 59,007,498	\$ 21,046,772
Explanation of Differences between Budgetary Inflow and Outflows and GAAP Revenues and Expenditures			
<b>Sources/Inflows of Resources</b>			
Actual amounts (budgetary basis)			\$ 86,871,825
Differences - Budget to GAAP:			
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes			(63,005,022)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances			\$ 23,866,803

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**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**

**SUPPLEMENTARY INFORMATION –  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

**June 30, 2023**



# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

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September 28, 2023

Board of Directors  
Memorial-Heights Redevelopment Authority  
City of Houston, Texas

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Memorial-Heights Redevelopment Authority ("the Authority") 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 and have issued our report thereon dated September 28, 2023.

### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies, and therefore material weaknesses may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



Board of Directors  
Memorial-Heights Redevelopment Authority

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

September 28, 2023





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September 28, 2023

Board of Directors  
Memorial Heights Redevelopment Authority  
City of Houston, Texas

**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control  
over Compliance Required by the Uniform Guidance**

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited Memorial-Heights Redevelopment Authority's (the "Authority") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2023. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

**Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.



### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

### **Auditor's Responsibility for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



### **Report on Internal Control Over Compliance**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston Texas

September 28, 2023



**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
Department of Transportation:			
Federal Highway Administration FY 2019 BUILD Transportation Grants Program	20.933	Award Number 693JJ32140002	<u>\$ 8,818,529</u>

See accompanying independent auditor's report.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal award includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

**NOTE 2. BUILD GRANT**

On September 9, 2021, the Authority was awarded a \$25 million Better Utilizing Investments to Leverage Development (BUILD) FY 2019 Discretionary Grant. These grant funds will be matched with \$25 million of local funds by the Authority to build Phase I of the project to reconstruct Shepherd and Durham from approximately 15<sup>th</sup> Street to I-610. On February 18, 2022, the grant agreement was amended to extend the period of performance from March 31, 2025 to August 24, 2025, to amend the planned construction start date from October 1, 2021 to February 21, 2022, and to require local matching funding of \$34,597,586 rather than \$25 million. As of June 30, 2023, the Authority has expended \$30,881,620, of which \$22,941,598 was expended in the current year. During the year ended June 30, 2023, the Authority received BUILD grant reimbursements of \$9,537,402. Of that amount, \$718,873 reimbursed expenditures in a prior year.

**NOTE 3. MATCHING COSTS**

Matching Costs, the nonfederal share of certain program costs, are not included on the Schedule.

**NOTE 4. INDIRECT COSTS**

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

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**Section I — Summary of Auditor’s Results**

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***Financial Statements***

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  
\_\_\_\_\_ yes   X   no
- Significant Deficiencies(s) identified that are not considered to be material weaknesses?  
\_\_\_\_\_ yes   X   None reported
- Noncompliance material to financial statements noted?  
\_\_\_\_\_ yes   X   no

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?  
\_\_\_\_\_ yes   X   no
- Significant Deficiencies(s) identified that are not considered to be material weakness(es)?  
\_\_\_\_\_ yes   X   None reported
- Type of auditor’s report issued on compliance for major programs: Unmodified
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 of Uniform Guidance \_\_\_\_\_ yes   X   no

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

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Identification of major programs:

*Assistance*

*Listing*

*Number(s)*      *Name of Federal Program or Cluster*

**20.933**      **US Department of Transportation Federal Highway Administration BUILD FY 2019  
Transportation Grants Program**

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Dollar threshold used to distinguish

between type A and type B programs:      \$750,000

Audited Qualified as low-risk auditee?      \_\_\_\_\_ yes        X   no

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

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**Section II — Financial Statement Findings**

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None

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

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**Section III— Federal Award Findings and Questioned Costs**

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None

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

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None

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF ESTIMATE OF PROJECT COSTS TO ACTUAL COSTS**  
**PERIOD FROM DECEMBER 11, 1997 (DATE OF INCORPORATION)**  
**THROUGH JUNE 30, 2023**  
**(UNAUDITED)**

Vendor	Estimated Total Costs	Total Expenditures	Variance Positive (Negative)
Public Utility Improvements	\$ 138,144,635	\$ 2,893,549	\$ 135,251,086
Roadway and Sidewalk Improvements	131,738,100	43,506,590	88,231,510
Parks and Park Improvements	88,499,375	11,161,640	77,337,735
Professional Services/TIRZ Administration	11,513,853	8,829,663	2,684,190
Property Assemblage/Clean-up	52,100,000	882,382	51,217,618
Financing Cost	29,879,513	8,755,254	21,124,259
Creation Costs	175,300	175,300	0
School and Educational Facilities	23,123,754	12,705,295	10,418,459
Affordable Housing	<u>33,332,210</u>	<u>7,262,210</u>	<u>26,070,000</u>
<b>Total Reimbursement</b>	<b><u>\$ 508,506,740</u></b>	<b><u>\$ 96,171,883</u></b>	<b><u>\$ 412,334,857</u></b>

See accompanying independent auditor's report.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF OPERATING EXPENDITURES AND CAPITAL EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2023**

Category	Vendor	Budget	Actual Expenditure	Variance Positive (Negative)
<b>ADMINISTRATION AND OVERHEAD</b>				
Administration Support	SMW	\$ 300,000	\$ 105,321	\$ 194,679
	eLsqrd Media Group,			
Office Administration	Commerce Bank, SKLaw	20,000	6,673	13,327
Insurance	TML Insurance	5,000	1,577	3,423
	The Morton Accounting			
Accounting	Services	30,000	23,648	6,352
	McCall Gibson Swedlund			
Auditor	Barfoot PLLC	20,000	13,250	6,750
	Equi-Tax, Inc., Masterson			
	Advisors, Regions Corporate			
Tax Consultant	Trust	<u>25,000</u>	<u>15,640</u>	<u>9,360</u>
<b>SUBTOTAL</b>		<u>\$ 400,000</u>	<u>\$ 166,109</u>	<u>\$ 233,891</u>
<b>PROGRAM AND PROJECT CONSULTANTS</b>				
Legal-General Matters	SKLaw	\$ 100,000	\$ 68,151	\$ 31,849
Planning Consultants	Goodman Corp, Medley Inc.	75,000	111,869	(36,869)
Engineering Consultants	Quiddity	<u>75,000</u>	<u>48,075</u>	<u>26,925</u>
<b>SUBTOTAL</b>		<u>\$ 250,000</u>	<u>\$ 228,095</u>	<u>\$ 21,905</u>
<b>TOTAL MANAGEMENT/CONSULTING SERVICES</b>		<u>\$ 650,000</u>	<u>\$ 394,204</u>	<u>\$ 255,796</u>
Regents Square GID/ Hanover	Sovereign Regent Square	<u>\$ 1,610,000</u>	<u>\$ 420,490</u>	<u>\$ 1,189,510</u>
Municipal Services	City of Houston	<u>\$ 160,652</u>	<u>\$ 155,560</u>	<u>\$ 5,092</u>

See accompanying independent auditor's report.

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**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF OPERATING EXPENDITURES AND CAPITAL EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2023**

Category	Vendor	Budget	Actual Expenditure	Variance Positive (Negative)
Project T-0521-Little Thicket Park Improvements	SKLaw, Kuo and Associates, SMW	\$ 500,000	\$ 13,417	\$ 486,583
Project T-0523A-Shepherd/Durham Reconstruction	SKLaw/Quiddity/SMW/ The Goodman Corp/CDM Smith/SER Construction	\$ 21,500,000	\$ 22,941,598	\$ (1,441,598)
Project T-0525-North Canal Project	SMW	\$ 6,020,000	\$ 1,575	\$ 6,018,425
Project T-0528-Selected Streets Between Shepherd and Durham	SMW	\$ - 0 -	\$ 75	\$ (75)
Project T-0529-Yale and Center Intersection	Quiddity, SMW	\$ 100,000	\$ 6,354	\$ 93,646
Project T-0531-Construction Phase Market Heights, Memorial Park to White Oak Trail Segment, West Dallas Restriping	Quiddity/SKLaw/ Teamwork Construction/ Houston Parks Board/SMW	\$ 1,200,000	\$ 1,079,294	\$ 120,706
Project T-0532-Zone Wide Safety and Mobility Projects		\$ 10,000	\$ - 0 -	\$ 10,000
Project T-0533-Zone Wide Localized Stormwater Management Projects		\$ 10,000	\$ - 0 -	\$ 10,000
Project T-0534-Safety Improvements 19th and Beall Area	Quiddity/SKLaw/ The Goodman Group/SMW	\$ 65,000	\$ 106,011	\$ (41,011)
Project T-0536-Waugh-Dallas to Allen Parkway Mill and Overlay and Bike Facilities (Partnership Project)		\$ 500,000	\$ - 0 -	\$ 500,000
Project T-0599-Safe Sidewalk Program		\$ 25,000	\$ - 0 -	\$ 25,000
<b>TOTAL CAPITAL EXPENDITURES</b>		<b>\$ 29,930,000</b>	<b>\$ 24,148,324</b>	<b>\$ 5,781,676</b>

See accompanying independent auditor's report.

