

**HOUSTON DOWNTOWN  
MANAGEMENT DISTRICT**

Houston, Texas

**INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Houston Downtown Management District

We have audited the accompanying financial statements of the Houston Downtown Management District (the "District"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Houston, Texas**

June 20, 2019

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**December 31, 2018**

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The following discussion and analysis of Houston Downtown Management District's (the District or HDMD) financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2018.

Please read in conjunction with the District's financial statements and notes.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Comparative information between the current year and the prior year is included in the MD&A.

## **Organization**

### Creation

The District was created in the regular session of the Texas Legislature in the spring of 1995 by legislation co-sponsored by Senator Rodney Ellis and Representative Garnet Coleman. This legislation created a Municipal Management District under Chapter 375 of the Local Government Code and is currently codified in Chapter 3801 of the Texas Special Districts Code. HDMD became effective on August 2, 1995 and was organized on August 29, 1995. In 1999, the District's boundaries were expanded by the Texas Legislature to include all of the 1,178 acres that lie primarily within the freeway ring around the City of Houston's (City) center.

### Purpose

Building on the momentum of the Houston Downtown Public Improvement District created by the City in 1991, the District's purpose is to continue the pursuit of a plan for downtown's revitalization to make it a diverse, desirable, accessible and perpetually active core of the Houston region.

### Board of Directors

The board of directors (board) is made up of a 30 member board with additional ex-officio, non-voting, members that include City department heads from the Police, Public Works, Parks & Recreation, Convention and Entertainment Facilities, and Planning departments, METRO's President and certain chairs of other downtown organizations. Board member qualifications are ownership, tenancy or residence of property within the District or an agent or employee thereof. The board shall have experience in energy, commercial banking, real estate, finance, insurance, retail, service, utilities and the general issues that the District addresses. Two thirds of the directors shall be City residents. Board members have staggered four year terms. New appointments and renewals are confirmed by City Council. Unexpired terms with replacements need not be confirmed by City Council.

### Powers

In addition to the rights, powers, privileges, authority and functions of a district created under Chapter 375 of the Local Government Code and the aforementioned Chapter 3801 of the Texas Special Districts Code, to accomplish its purposes the District may employ the rights granted to political subdivisions under Article 16, Section 59, of the Texas Constitution, including those conferred by Chapter 54 of the Texas Water Code, and the powers under Article 3, Section 52, of the Texas Constitution and Chapters

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365 and 441 of the Texas Transportation Code. The District does not have power of eminent domain and cannot finance by assessment services or improvements unless a petition has been filed with the board signed by a requisite number of landowners. As each new service and improvement plan (normally every 5 years) is put in place, a petition is signed by a requisite number of landowners.

On November 12, 2015, the District board of directors approved a new service and improvement plan which will be assessed based on 2015 values in installments annually over each of the five years 2016-2020. This is the third year of the service and improvement plan.

The District may levy assessments, ad valorem taxes and/or impact fees. Pursuant to Chapter 3801, the District may incur liabilities, borrow, issue bonds, or other obligations, acquire and dispose of property, construct, develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, arts, entertainment, economic development, safety and the public welfare.

Specifically, the District was created to provide services and improvements which supplement those presently provided by the City to promote, develop, encourage, and maintain employment, commerce, economic development, and public welfare within the District in downtown Houston. To that end, the District presently provides services in five main areas of operation:

- Operations (public safety and maintenance)
- Capital Projects
- Economic and Business Development
- Planning
- Marketing and Communications

Bonds and Assessments

The District may issue bonds payable by assessments or ad valorem taxes. The City must approve the bond issue or any capital improvements budget that is financed from a bond issue. The District must hold an election and obtain voter approval to impose a maintenance tax or to issue bonds payable from ad valorem taxes or assessments. At present, the District has no outstanding bonds.

Intergovernmental Agreements

The District is a governmental agency and political subdivision of the State of Texas, and may enter into intergovernmental agreements with other units of government at the Federal, state and local level.

Policies and Procedures

HDMD's board adopted policies and procedures regarding personnel, procurement, contract administration, disadvantaged business enterprise program, budget, accounting, property ownership, insurance, ethics and investments. The District has contracted with Central Houston, Inc., a 501(c)(6) not-for-profit corporation, for the provision of administrative and managerial personnel, thereby realizing certain economies of operation expense. The District will contract out for all other services in accordance with adopted policies and procedures.

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Disadvantaged Business

The District attempts to stimulate the growth of disadvantaged businesses within its boundaries by encouraging full participation in all phases of procurement. The District strives to increase participation of disadvantaged businesses in contract awards. The program is reviewed on an annual basis and a quarterly report is made to the board.

Torts Claims

On December 31, 2018, there were no known claims.

Assessment Plan

Assessments for 2018 were based on the 2015 certified rolls of the Harris County Appraisal District, as supplemented, for taxable, non-excluded properties within the 1999 expanded boundaries of the Houston Downtown Management District with certain annual revisions pursuant to the Assessment Plan.

**Financial Highlights for 2018**

Assessment Revenues

The District's assessment rate for 2018 was 11.75¢/\$100 in valuation based on 2015 certified Harris County Appraisal District rolls, as supplemented, within 1999 boundaries of the District. 10.4¢ was for operations and resulted in net revenues of \$13,555,352. 1.35¢ was for capital and resulted in net revenues of \$1,759,916.

Capital Projects

During 2018, the District completed the capital project to add lighting to approximately 30 vehicular wayfinding signs and \$214,095 was spent during 2018 for a total project cost of \$683,352. Enhanced lighting in Market Square Park was completed during 2018 at a cost of \$76,234. Three new capital projects were approved by the board in 2018. The first is a street light infill project to improve the lighting on several blocks on the east side of downtown and the District incurred \$102,539 with CenterPoint Energy for equipment and \$149,939 for engineering/design. The second is Phase I of parking lot edge landscaping improvements (fencing, Asian Jasmine, irrigation and sidewalk enhancements) and the District incurred \$45,496 for design and \$416,659 for construction. The third is Phase I of 100 new Forms + Surfaces bike racks installed throughout downtown and the District incurred \$149,394 for the cost of the bike racks and \$44,752 for installation. In addition, capital replacements included: \$31,000 to refurbish the dog park fences at Market Square Park, \$22,853 for granite replacements at Main Street Square and \$10,019 for a new compressor for the Main Street Fountain.

Downtown Living Initiative

The District, in conjunction with the City of Houston and the Downtown Redevelopment Authority, created a program in 2012 called the Downtown Living Initiative (DLI) which is designed to incentivize residential development in downtown. Developers are eligible to receive a rebate equal to 75% of the incremental District assessment and City of Houston property taxes generated by the project upon completion for a fifteen-year period up to a maximum of \$15,000 per unit. There is an overall cap of units

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available to participate in the program of 5,000. The application deadline for the DLI program was June 30, 2016 and the program is now closed.

The District has executed DLI agreements with fifteen developers totaling 4,600 units. Projects opened as of the end of 2018 include: SkyHouse Houston, SkyHouse Main, Block 334, Market Square Tower, the Star, Aris Market Square, Eighteen25, Catalyst, 1414 Texas, 1711 Caroline, and the Marlowe. Estimated completion dates for the additional development projects range from the fourth quarter of 2019 through the end of 2021. The residential projects are geographically dispersed throughout several areas of the District, including the Ballpark District, the Historic District and the southern portion of downtown. Developers are required to meet certain deadlines and follow design guidelines to benefit from the incentive program, although extensions may be granted if approved by the board. District liability for DLI assessment rebates to developers is contingent upon renewal of subsequent service plans beyond 2020. During 2018 a total of \$235,493 was paid by the District in assessment rebates under the DLI residential program.

Greenlink Circulator Program

In 2012, the District received a federal transportation grant in the amount of \$2,270,000 to purchase seven CNG-powered vehicles to provide clean energy, convenient transportation, free of charge through the key corridors of downtown. The District partners with Houston First Corporation to fund operations of the Greenlink service. The annual commitment for Greenlink is \$450,000 each for the District and Houston First Corporation. The District applied for and was awarded a grant through the Texas Commission on Environmental Quality to provide \$299,924 in additional funding. METRO operates the Greenlink vehicles and has an agreement with the District for a four-year term ending June 30, 2020.

During 2017, the District and Houston First participated in a series of meetings to discuss modification of the Greenlink routes, new vehicle wraps, signage, and branding to improve visibility of the service and ridership. The partners made the determination to discontinue routes on Avenidas de las Americas due to the frequency of street closures for events and to utilize the South Garage Transit Center for driver layovers/breaks. The Green Route was extended two blocks to the north to run on Capitol Street and the Orange Route was extended to add Monday – Wednesday evenings (seven day a week service). A new branding package was approved, and the new route/branding launched in first quarter of 2018.

Grant Programs

The District awarded an economic development grant in 2013 to Finger-FSC Crawford, Ltd. for construction of a 397-unit residential development on blocks 50 & 51 in the District. Awarded prior to the creation of the DLI program, this grant is equal to 75% of the incremental District assessment generated by the project for a term of 15 years from the date of completion of the project and its inclusion on the District's tax assessment roll. This residential project, which includes two street level restaurants on Texas Avenue, was completed in 2016 and the first payment was made in the amount of \$44,552 in 2018.

The District has a program to support catalytic retail projects. During 2017, a total of \$180,000 was award to two grantees. The Tipping Point received a grant of \$40,000 for the opening of a lifestyle/fashion store at 214 Travis in the historic district. Bravery Chef Hall received a grant of \$140,000 which will activate the street level of the residential project Aris Market Square and feature a food hall concept for rising-star chefs. In 2018, the Tipping Point grant was paid in full and construction was in progress for the Bravery Chef Hall with a scheduled opening in the summer of 2019.

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Downtown Improvements Maintenance Agreement

The District is responsible for maintaining improvements (pavers, trees, landscaping, irrigation systems, lighting, etc.) within the public right of way that were installed as part of the various improvement projects (Cotswold, Transit Streets, Dallas Street/Shopping District, Main Street, Market Square Park, and Main Street Square). A signed agreement with the City delineates the maintenance responsibility for the District.

During 2018, the District expended \$150,000 for paver repair work, \$108,242 for street light maintenance, \$680,444 for landscaping/irrigation maintenance, \$392,128 for floral displays, \$171,716 for Main Street Square maintenance, and \$193,765 for Market Square Park maintenance. Adjacent property owners reimbursed the District \$51,636 for Main Street Square fountain maintenance. Rent and utility reimbursements from the food kiosk vendor generated \$54,558 of revenue for Market Square Park.

Street Lighting

In 1999, the District signed a street lighting agreement with the City. The agreement provided for upgraded street lighting to be installed and for the District to pay for the additional power use for the increased lamp wattage and additional street lights added. During 2018, the District incurred \$160,000 for the additional power usage.

Litter and Trash Program

Maintaining a clean and safe downtown environment is a primary part of the District's mission. During 2018, the Street Team program was funded in the amount of \$2,104,179 to provide litter and trash pick-up on a seven day a week basis, sidewalk pressure washing, graffiti & bird abatement, and a recycle program. The trash subscription program provides \$193,243 in offsetting revenues. Also, the District provided METRO bus stop cleaning services and received \$272,761 in offsetting revenues for this effort.

Downtown Public Safety Guides

The Downtown Public Safety Guide program was created to provide a customer service oriented visible presence in downtown. Safety Guides offer assistance to visitors, connect homeless individuals to social services and act as a deterrent to crime. The District spent \$1,225,406 for the guide program during 2018. In addition, the District engages Off-Duty Houston Police Officers on a part-time basis to deploy in strategic areas. The District spent \$392,746 for the Off-Duty Officer program during 2018.

The District is committed to, and funded, programs to reduce homelessness, spending \$438,790 during the past year with our outreach partners Search, Harris Center, and Coalition for the Homeless. In addition, the organization contributed \$148,665 toward the Public Intoxication Transport Team (PITT) program run by the Houston Recovery Center.

Operations Center

The District leases office space at 1119 Milam for operations staff, contractor street/safety guide teams, emergency operations and equipment storage. The District also leases additional warehouse storage space for equipment and extra stock storage. Annual rent, utilities and supplies for office and warehouse space totaled \$229,368

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During 2018, the District entered into a 15-year lease agreement with LVA4 Greenstreet, LP to relocate the District Operations Center to 1313 Main in space adjacent to the Greenstreet garage. The District was able to approximately double its square footage to accommodate the growth in operations which has added personnel to meet the needs of the emerging 24/7 environment in the District. Construction was in progress at the end of the year with a scheduled move-in date of April 2019. The District will occupy the first floor of the building at approximately 12,500 sq. ft. and has an option on the second-floor space of approximately 11,000 sq. ft. The District spent \$295,134 during 2018 for the in-progress build-out, IT infrastructure, and furnishings for the new operations center.

Banner Poles and Holiday Decorations

The District provides street banners and holiday decorations for downtown. A new holiday package was installed for the 2018 season which included: 7 refurbished trees, 24 pole décor treatments, 4 new street overheads, and 1 large “NOEL” installation. The new décor is on a three-year lease with Always in Season. During 2018, \$562,769 was spent on banner changes, pole/pot maintenance, and installation of holiday decorations.

Wayfinding Maintenance

The District has made a significant capital investment in the 66 vehicular and 109 pedestrian wayfinding signs in the downtown area over the past three years. A maintenance agreement was established to provide regular cleaning, repairs, and replacement of damaged signs. A total of \$111,220 was spent during 2018 on wayfinding signage maintenance.

Marketing and Communications Program

In 2018, the District continued to publish the downtown magazine, engage the public through social media, and produce a weekly e-blast to communicate a variety of events happening in downtown. A new advertising/creative agency was retained resulting in a new campaign initiative called “Meet Downtown.” Total expenditures for marketing and communications were \$714,929 in 2018, with offsetting revenues from the magazine advertising totaling approximately \$34,369.

The District also continued its initiative, Art Blocks, to bring unique smaller-scale public art to the downtown area. The pieces were selected by a committee of local collectors, curators, and philanthropists and consisted of new marquees at the Main Street Market and an interactive art installation in Sam Houston Park called “Open House.” The District incurred expenditures of \$342,982 during 2018 for the ArtBlocks program.

Economic Development

The District is committed to building relationships with the business community in downtown and acting as a resource for information regarding office market trends, commute solutions for the workforce, and the benefits of locating a business downtown. The District spent \$244,579 on its economic development program during 2018, which is conducted in partnership with Central Houston, Inc.

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Planning

The planning efforts of the District were largely focused planning for the North Houston Highway Improvement Plan, including traffic studies of specific areas impacted by the highway reconfiguration, opportunities for relocation of the Union Pacific railroad line in the northern portion of downtown and potential new city streets/street closures. A total of \$454,968 was spent by the District on the highway planning.

Public Space Programming

The District uses programming to attract visitors to downtown. Programming is extensive at Market Square Park in the Historic District, offering seasonal events such as concerts, culinary evenings, movie nights, blanket bingo, special markets, and other creative offerings. The District spent \$178,817 during 2018 on programming in Market Square Park, drawing visitors not only to the park itself but to the surrounding businesses in the Historic District. The District also received \$18,166 in offsetting event revenue at Market Square Park.

In 2018, the District continued its regular programming at Main Street Square including: the HeartMade Art Market and painting parties under the canopy of the Trumpet Flower. A total of \$93,700 was spent on programming in Main Street Square during 2018.

A new event was added in 2018, a Holiday version of “Sunday Streets,” which was promoted jointly with the Mayor’s Office of Special Events. In addition, another new series called “DIY” featured fun project-oriented gatherings located around various showcased locations throughout downtown. The District incurred \$50,439 for these “around downtown” new events.

Overview of Financial Statements

Under GASB Statement No. 34, the District qualifies as a special purpose government with one program—revitalization of the downtown area.

Government-wide statements report information about the District as a whole using accounting methods similar to those used in private-sector companies. The statement of net position includes all of the District’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 District on the modified accrual basis, which only account 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 fund statements to the government-wide statements. Explanations for the reconciling items are provided as part of the financial statements.

**Statement of Net Position**

The statement of net position reflects the District’s assets and liabilities using the full accrual basis of accounting and represents the financial position as of the conclusion of the fiscal year. Net positions are equal to assets minus liabilities. Unrestricted net positions are available to the District for any lawful purpose. Restricted net positions have constraints on resources, which are imposed by law through contractual provision of enabling legislations.

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The following table reflects condensed information on the District's net positions as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Capital assets, net	\$ 1,817,835	\$ 1,806,124
Other assets:		
Cash and cash equivalents	13,600,616	12,402,506
Assessments, net	14,170,220	13,279,717
Accounts receivable and prepaid expenses	219,211	160,342
Inventory	<u>80,448</u>	<u>101,033</u>
Total assets	<u>29,888,330</u>	<u>27,749,722</u>
Total liabilities	<u>2,355,978</u>	<u>1,889,763</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>
Net position:		
Invested in capital assets, net of related debt	1,817,835	1,806,124
Restricted for capital projects	4,258,396	3,748,040
Restricted for Greenlink	1,074,695	1,483,238
Unrestricted	<u>20,381,426</u>	<u>18,822,557</u>
Total net position	<u>\$ 27,532,352</u>	<u>\$ 25,859,959</u>

**Assets**

As of December 31, 2018, the District's assets totaled \$29,888,330 versus \$27,749,722 as of December 31, 2017. At year-end, the District had \$9,316,698 of cash on hand for service plan operations, \$3,009,323 for capital projects and \$1,274,595 for the Greenlink circulator program. Funds not needed for immediate operations are invested in TexPool Prime accounts. Investments are reviewed quarterly by the board of directors. Net capital assets of the District were \$1,817,835 as of December 31, 2018, which reflects \$315,473 of new asset acquisitions and \$303,762 of depreciation expense from the net capital asset balance of \$1,806,124 as of December 31, 2017. Net assessment receivable as of December 31, 2018 totaled \$14,170,220 versus \$13,279,717 as of December 31, 2017.

**Liabilities**

At December 31, 2018 and 2017, the District's liabilities were primarily related to accounts payable and accrued expenses and totaled \$2,205,978 and \$1,739,763, respectively. In addition, liability balances included unearned revenue of \$150,000 in each of the fiscal years 2018 and 2017 related to the Greenlink circulator program.

**Net Positions**

Net positions at year-end 2018 totaled \$27,532,352. Net positions in 2018 are classified as invested in capital assets, restricted for capital projects, restricted for Green Link, and unrestricted, which totaled \$1,817,835, \$4,258,396, \$1,074,695 and \$20,381,426, respectively. In 2017, net positions totaled \$25,859,959 and are classified as invested in capital assets, restricted for capital projects, restricted for Green Link and unrestricted which totaled \$1,806,124, \$3,748,040, \$1,483,238, and \$18,822,557 respectively.

Net positions for the District increased by \$1,672,393.

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**Statement of Activities**

The following statement of activities identifies operating revenues earned and expenses incurred by the District during the fiscal years ended December 31, 2018 and 2017:

Revenues:	<u>2018</u>	<u>2017</u>
Assessments, net - service plan operations	\$ 13,555,352	\$ 14,003,070
Assessments, net - capital projects	1,759,916	1,816,698
Greenlink sponsor revenues	749,924	877,122
Other	1,053,330	1,757,123
Total	<u>\$ 17,118,522</u>	<u>\$ 18,454,013</u>

In 2018, revenues totaled \$17,118,522 compared to \$18,454,013 in 2017. Assessment revenues decreased by due to an adjustment in the reserve for refunds attributable to property valuations in litigation that was reversed in 2017. Assessment revenues decreased by \$678,273 as a result of property values added in the supplemental roll for 2018. Operations revenue has increased by \$78,372 due to increases in the trash program and METRO rates. Marketing partnership revenue has decreased by \$45,631 due to a decrease in advertising revenue from the magazine and Market Square Park rent. Miscellaneous reimbursements decreased by \$125,667 because a smaller number of contractors had to make payments to repair irrigation systems damaged in the process of their construction and salary reimbursements decreased by \$42,855 due to changes in staff allocations. Project revenue decreased by \$550,000 in contributions for Plan Downtown and \$232,550 in reimbursements for the Sunset Coffee renovation which were made in 2017 but not required in 2018. Interest income increased by \$187,448 due to an increase in interest earnings rates on investments. Greenlink sponsor revenues decreased by \$127,198 as a result of decreased grant funding for the project from TCEQ.

Expenditures:	<u>2018</u>	<u>2017</u>
Service plan operations	\$ 12,179,262	\$ 11,830,325
Capital projects	1,383,202	1,632,700
Greenlink expenditures	1,883,665	1,537,858
Total	<u>\$ 15,446,129</u>	<u>\$ 15,000,883</u>

In 2018, expenditures totaled \$15,446,129 compared to \$15,000,883 in 2017. The total increase in service plan operations over 2017 of \$445,246 was primarily due to increased budgets for the following programs: \$133,712 for additional Street Team personnel, \$92,541 in wayfinding maintenance, \$115,199 in homeless programs, \$69,221 in contributions to the Economic Development program, \$199,057 in grant payouts for Downtown Living Initiative programs and \$480,041 in new holiday decor, offset by a decrease of \$691,792 in planning due to the conclusion of the work on Plan Downtown. There was a reduction of \$249,498 in capital primarily because the construction on the Sunset Coffee Building was completed in 2017, and \$345,805 in increased expenditures due to the route changes extending the Green Route and adding Monday, Tuesday, and Wednesday service to the Orange Route.

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**Budgetary Highlights**

Service plan operations

	<u>2018</u>		<u>2017</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Revenues:	<u>14,479,835</u>	<u>\$ 13,749,372</u>	<u>\$ 14,904,346</u>	<u>\$ 12,899,914</u>
Expenditures:				
Downtown feels safe and comfortable	6,254,723	6,870,000	6,115,353	6,025,500
Public realm is charming, inviting, beautiful	2,316,734	2,162,000	1,743,906	1,887,500
Accessible to region and easy to get around	333,356	310,500	283,346	374,500
Vibrant, sustainable mixed-use place	722,026	1,036,900	448,807	752,000
Downtown's vision understood by all	1,769,052	2,045,700	2,432,997	2,821,000
District governance known for excellence	<u>783,371</u>	<u>874,260</u>	<u>805,916</u>	<u>873,725</u>
Total expenditures	<u>12,179,262</u>	<u>13,299,360</u>	<u>11,830,325</u>	<u>12,734,225</u>
Revenues in excess of expenditures	<u>\$ 2,300,573</u>	<u>\$ 450,012</u>	<u>\$ 3,074,021</u>	<u>\$ 165,689</u>

- Overall 2018 service plan operations revenues were ahead of budget by \$730,463, of which \$606,881 is attributable to revenue from the supplemental roll and \$145,395 attributable to an increase in interest earnings on invested funds.
- Service plan operations expenditures for 2018 were less than budget by \$1,120,098. Personnel costs were under budget by \$149,310 (5%) primarily due to open positions in the Off-Duty Officer program, operations & maintenance expenditures were under budget by \$403,569, marketing by \$109,741, economic development by \$23,421, planning and design by \$171,162 and administrative expenses were under budget by \$242,075 due to delays in Downtown Living Initiative project reimbursement requests.

Capital projects

	<u>2018</u>		<u>2017</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Revenues:	<u>1,863,504</u>	<u>\$ 1,706,300</u>	<u>\$ 2,658,479</u>	<u>\$ 1,804,399</u>
Expenditures:				
Downtown feels safe and comfortable	252,478	890,000	-	200,000
Public realm is charming, inviting, beautiful	462,155	525,000	439,011	459,729
Accessible to region and easy to get around	491,766	1,705,000	679,000	1,205,000
Vibrant, sustainable mixed-use place	32,175	132,163	188,251	290,365
District governance known for excellence	<u>144,628</u>	<u>399,989</u>	<u>326,438</u>	<u>372,121</u>
Total expenditures	<u>1,383,202</u>	<u>3,652,152</u>	<u>1,632,700</u>	<u>2,527,215</u>
Revenues in excess (deficit) of expenditures	<u>\$ 480,302</u>	<u>\$ (1,945,852)</u>	<u>\$ 1,025,779</u>	<u>\$ (722,816)</u>

- Capital projects revenues for 2018 were ahead of budget by \$154,980, of which \$71,392 is attributable to revenue from the supplemental roll, \$41,760 from METRO reimbursements and \$41,828 attributable to an increase in interest earnings on invested funds.

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**December 31, 2018**

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- Expenditures for 2018 were \$2,268,950 less than budget due to delayed parking lot landscaping projects of \$300,854, delay in purchasing fencing for Chartres Street of \$50,000, delay in the street light infill project of \$367,522, sidewalk infill project put on hold of \$350,000, illuminated street sign project put on hold of \$600,000, savings of \$223,766 in Market Square Park lighting, \$70,000 in retail grants, \$29,988 in Downtown Living Initiative grant reimbursement payments and \$225,000 of capital replacement expenditures. In addition, \$200,000 budgeted for the purchase of holiday décor was instead spent in operations for the lease of the new holiday package. Offsetting the savings, \$161,995 of the vehicular electrification of wayfinding signage payments originally budgeted for 2017 were delayed until 2018.

Greenlink	<u>2018</u>		<u>2017</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Revenues:	775,183	\$ 760,000	\$ 891,188	\$ 804,138
Expenditures:				
Vehicle operator expense	1,453,089	1,350,000	1,173,574	1,285,000
Fuel expense	101,544	107,000	92,350	110,700
Marketing expense	73,823	75,000	11,998	48,000
Operating administrative expense	5,270	10,000	9,997	61,800
Depreciation expense	249,939	249,939	249,939	249,936
Total expenditures	1,883,665	1,791,939	1,537,858	1,755,436
Revenues in excess (deficit) of expenditures	<u>\$ (1,108,482)</u>	<u>\$ (1,031,939)</u>	<u>\$ (646,670)</u>	<u>\$ (951,298)</u>

- Greenlink revenue exceeded budget by \$15,183, attributable to higher than expected interest earnings.
- Greenlink expenditures exceeded budget by \$91,726. This is due to higher costs associated with the expanded Greenlink service and new routes. An extra bus was required on the Green Route to maintain headway times when we switched to the new routes which was not anticipated during the planning/budgeting process. These extra costs were partially reimbursed by METRO.

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This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Houston Downtown Management District, 909 Fannin, Suite 1650, Houston, Texas 77010.

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**Year Ended December 31, 2018**

	<u>Service Plan Operations</u>	<u>Capital Projects</u>	<u>Greenlink</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b><u>Assets</u></b>						
Cash and cash equivalents	\$ 9,316,698	\$ 3,009,323	\$ 1,274,595	\$ 13,600,616	\$ -	\$ 13,600,616
Accounts receivable	93,659	-	-	93,659	-	93,659
Prepaid expenses	125,552	-	-	125,552	-	125,552
Assessment due from tax collector, less allowance for delinquent accounts	12,540,516	1,629,704	-	14,170,220	-	14,170,220
Inventory	-	-	80,448	80,448	-	80,448
Interfund receivable (payable)	(126,529)	126,529	-	-	-	-
Capital assets, net	-	-	-	-	1,817,835	1,817,835
Total assets	<u>\$ 21,949,896</u>	<u>\$ 4,765,556</u>	<u>\$ 1,355,043</u>	<u>\$ 28,070,495</u>	<u>\$ 1,817,835</u>	<u>\$ 29,888,330</u>
<b><u>Liabilities</u></b>						
Accounts payable and accrued expenses	1,049,544	507,160	130,348	1,687,052	-	1,687,052
Due to affiliate	419,908	-	-	419,908	99,018	518,926
Unearned sponsorship payments	-	-	150,000	150,000	-	150,000
Total liabilities	<u>1,469,452</u>	<u>507,160</u>	<u>280,348</u>	<u>2,256,960</u>	<u>99,018</u>	<u>2,355,978</u>
<b><u>Deferred Inflows of Resources</u></b>						
Tax assessments	92,020	13,729	-	105,749	(105,749)	-
Total deferred inflows of resources	<u>92,020</u>	<u>13,729</u>	<u>-</u>	<u>105,749</u>	<u>(105,749)</u>	<u>-</u>
<b><u>Fund Balances</u></b>						
Fund balances:						
Nonspendable-inventories and prepayments	125,552	-	80,448	206,000	(206,000)	-
Restricted for capital projects	-	4,244,667	-	4,244,667	(4,244,667)	-
Restricted for Greenlink	-	-	994,247	994,247	(994,247)	-
Assigned for catastrophe	800,000	-	-	800,000	(800,000)	-
Unassigned	19,462,872	-	-	19,462,872	(19,462,872)	-
Total fund balances	<u>20,388,424</u>	<u>4,244,667</u>	<u>1,074,695</u>	<u>25,707,786</u>	<u>(25,707,786)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 21,949,896</u>	<u>\$ 4,765,556</u>	<u>\$ 1,355,043</u>	<u>\$ 28,070,495</u>		
Net position:						
Invested in capital assets, net of related debt					1,817,835	1,817,835
Restricted for capital projects					4,258,396	4,258,396
Restricted for Greenlink					1,074,695	1,074,695
Unrestricted					20,381,426	20,381,426
Total net position					<u>\$ 27,532,352</u>	<u>\$ 27,532,352</u>

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

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position Year Ended December 31, 2018

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Total fund balances of total governmental funds	\$ 25,707,786
Amounts reported for governmental activities in statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	1,817,835
Compensated absences	(99,018)
Deferred revenue is not available for current period expenditures and therefore deferred in the funds	105,749
Net position of governmental activities	<u>\$ 27,532,352</u>

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

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
**Statement of Activities and Governmental Fund Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended December 31, 2018**

	Service Plan Operations	Capital Projects	Greenlink	Total	Adjustments	Statement of Activities
<b>Revenues:</b>						
Assessments, net	\$ 13,551,895	\$ 1,757,692	\$ -	\$ 15,309,587	\$ 5,681	\$ 15,315,268
Project revenue	659,088	41,760	1,199,924	1,900,772	(450,000)	1,450,772
Interest	265,395	61,828	25,259	352,482	-	352,482
<b>Total revenues</b>	<b>14,476,378</b>	<b>1,861,280</b>	<b>1,225,183</b>	<b>17,562,841</b>	<b>(444,319)</b>	<b>17,118,522</b>
<b>Expenditures:</b>						
<b>Downtown feels safe &amp; comfortable at all times:</b>						
Collaboration to maintain low crime rate	1,839,039	-	-	1,839,039	-	1,839,039
Reduced presence of homeless & street persons	540,858	-	-	540,858	-	540,858
Downtown sidewalks are comfortably lighted	305,510	-	-	305,510	-	305,510
Downtown clean & well-kept appearance	3,742,302	-	-	3,742,302	(302,033)	3,440,269
Remove signs of disorder in downtown	28,063	-	-	28,063	-	28,063
Prepare for emergencies	100,984	-	-	100,984	-	100,984
	<b>6,556,756</b>	<b>-</b>	<b>-</b>	<b>6,556,756</b>	<b>(302,033)</b>	<b>6,254,723</b>
<b>Public realm is charming, inviting, beautiful &amp; Celebrates the life of the city:</b>						
Key pedestrian streets are inviting	412,600	-	-	412,600	-	412,600
Public spaces managed, programmed, & delightful	863,192	-	-	863,192	-	863,192
Place of civic celebration	1,040,942	-	-	1,040,942	-	1,040,942
	<b>2,316,734</b>	<b>-</b>	<b>-</b>	<b>2,316,734</b>	<b>-</b>	<b>2,316,734</b>
<b>Accessible to region &amp; easy to get around:</b>						
Effective transit access more places, more hours	10,800	-	-	10,800	-	10,800
Convenient circulation without personal vehicle	524,516	-	-	524,516	(450,000)	74,516
Easy to find way around	181,609	-	-	181,609	-	181,609
Connect neighbors & districts inside/outside downtown	50,348	-	-	50,348	-	50,348
Convenient, understandable & managed parking	16,083	-	-	16,083	-	16,083
	<b>783,356</b>	<b>-</b>	<b>-</b>	<b>783,356</b>	<b>(450,000)</b>	<b>333,356</b>
<b>Vibrant, sustainable mixed-use place:</b>						
Best place to work in region	244,579	-	-	244,579	-	244,579
Exciting neighborhoods to live in	377,579	-	-	377,579	-	377,579
Competitive shopping place	49,371	-	-	49,371	-	49,371
Remarkable destination for visitors	50,497	-	-	50,497	-	50,497
	<b>722,026</b>	<b>-</b>	<b>-</b>	<b>722,026</b>	<b>-</b>	<b>722,026</b>

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

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
**Statement of Activities and Governmental Fund Revenues, Expenditures, and**  
**Changes in Fund Balances (continued)**  
**Year Ended December 31, 2018**

	Service Plan Operations	Capital Projects	Greenlink	Total	Adjustments	Statement of Activities
<b>Downtown's vision &amp; offering understood by all:</b>						
Market to region	885,775	-	-	885,775	-	885,775
Promote downtown's ease of use	21,981	-	-	21,981	-	21,981
Vision/development framework understood by all	742,729	-	-	742,729	-	742,729
Tools to assist continued redevelopment	86,503	-	-	86,503	-	86,503
Develop & maintain information to support downtown	32,064	-	-	32,064	-	32,064
	<u>1,769,052</u>	<u>-</u>	<u>-</u>	<u>1,769,052</u>	<u>-</u>	<u>1,769,052</u>
<b>District governance &amp; service known for excellence:</b>						
Engage stakeholders in decision making	694,324	-	-	694,324	11,100	705,424
Communications to owners, tenants & others	23,464	-	-	23,464	-	23,464
Preservation of districts' capital assets	32,649	-	-	32,649	21,834	54,483
	<u>750,437</u>	<u>-</u>	<u>-</u>	<u>750,437</u>	<u>32,934</u>	<u>783,371</u>
<b>Capital improvement &amp; expenditures:</b>						
Downtown feels safe & comfortable	-	252,478	-	252,478	-	252,478
Public realm is charming, inviting, & beautiful	-	475,595	-	475,595	(13,440)	462,155
Accessible to region & easy to get around	-	491,766	-	491,766	-	491,766
Vibrant, sustainable mixed-use place	-	32,175	-	32,175	-	32,175
Capital replacement expenditure	-	112,639	-	112,639	31,989	144,628
	<u>-</u>	<u>1,364,653</u>	<u>-</u>	<u>1,364,653</u>	<u>18,549</u>	<u>1,383,202</u>
<b>Accessible to region and easy to get around:</b>						
Vehicle operator	-	-	1,453,089	1,453,089	-	1,453,089
Fuel	-	-	101,544	101,544	-	101,544
Marketing	-	-	73,823	73,823	-	73,823
Administrative	-	-	5,270	5,270	249,939	255,209
	<u>-</u>	<u>-</u>	<u>1,633,726</u>	<u>1,633,726</u>	<u>249,939</u>	<u>1,883,665</u>
<b>Total expenditures</b>	<u>12,898,361</u>	<u>1,364,653</u>	<u>1,633,726</u>	<u>15,896,740</u>	<u>(450,611)</u>	<u>15,446,129</u>
Excess (deficiency) of revenues over expenditures	1,578,017	496,627	(408,543)	1,666,101	(1,666,101)	-
Change in net position					1,672,393	1,672,393
<b>Fund balances/net position:</b>						
Beginning of year	18,810,407	3,748,040	1,483,238	24,041,685	1,818,274	25,859,959
End of year	<u>\$ 20,388,424</u>	<u>\$ 4,244,667</u>	<u>\$ 1,074,695</u>	<u>\$ 25,707,786</u>	<u>\$ 1,824,566</u>	<u>\$ 27,532,352</u>

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

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
**Reconciliation of Revenue, Expenditures, and Changes in Fund Balance – Governmental**  
**Funds to the Statement of Activities**  
**Year Ended December 31, 2018**

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Net change in total fund balance of governmental funds	\$ 1,666,101
Amounts reported for governmental activities in statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset:	
Capital assets are capitalized	315,473
Depreciation expense	(303,762)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds	(11,100)
Some assessments will not be remitted to the District for several months after fiscal year-end; they are not considered as "available" revenues in governmental funds	<u>5,681</u>
Change in net position of statement of activities	<u>\$ 1,672,393</u>

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

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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### Note 1 – Description of Organization

#### Organization

Houston Downtown Management District (the District), is a Municipal Management District created under Chapter 375 of the Local Government Code and is currently codified in Chapter 3801 of the Texas Special Districts Code. The District's boundaries include all of the 1,178 acres that lie primarily within the freeway ring around the City of Houston's central business district. The District is governed by a 30-member Board of Directors, representing property owners, managers and tenants in downtown.

The District's main areas of operation are geared towards ensuring that downtown always feels safe and comfortable; public realm is charming, inviting, beautiful and celebrates life of the city; accessible to region and easy to get around; vibrant, sustainable mixed-use place; Downtown's vision and offering understood by all; District governance and service known for excellence; capital projects, and operating the Greenlink transit program. All programs are provided for under a five-year service plan (2016 - 2020) for downtown revitalization.

### Note 2 – Summary of Significant Accounting Policies

#### Measurement Focus and Basis of Accounting

##### *Government-Wide Financial Statements*

The statement of net positions and the statement of activities display information about the reporting government as a whole. The statement of net positions 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, regardless of the timing of the related cash flow.

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 District does not have any business-type activities.

Under the government-wide financial statements, net position is classified into three components as follows:

Invested in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any bonds, notes, or other borrowings.

Restricted – This component of net position consists of constraints on use placed on net position through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets".

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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### *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 District 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 as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

### Fund Accounting

In government, the basic accounting and reporting entity is a “fund.” A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording financial resources together with all related liabilities, obligations, reserves and equities which are segregated for carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The District’s funds include:

### Service Plan Operations

The Service Plan Operations fund was established to account for an annual assessment of up to 10.4 cents per \$100 valuation of taxable real property according to the 2015 tax roll of the Harris County Appraisal District, as supplemented. These funds are to be used for operating expenses including public safety, homelessness initiatives, cleanliness, maintenance, landscaping services, urban planning, economic and business development, marketing and communications necessary to build a constituency of support for a thriving, economical and vital downtown. It accounts for all activities except those required to be accounted for in other funds.

### Capital Projects

The Capital Projects fund was established to account for an assessment set annually not to exceed 1.35 cents per \$100 valuation of taxable real property according to the 2015 tax roll of the Harris County Appraisal District, as supplemented. These funds are to be used for major capital improvements to revitalize downtown including lighting, parks, streetscape enhancements, wayfinding signage, and retail and catalytic project grants.

### Greenlink

The Greenlink fund was established to create a downtown circulator transit service. These funds are to be used to operate the clean energy transit service, free of charge, which links various downtown activities and destinations. The Greenlink also promotes increased transit usage in general by the downtown community and provides an alternative to the use of personal vehicles for short trips within downtown.

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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### Special Assessment

The District's assessment was levied on November 11, 2015 for a five-year period based on assessed values as of January 1, 2015 for all real property located in the District. These assessments are due in five equal annual installments by January 31 of the years 2016 through 2020 and are delinquent if not paid before February 1 of that year. The District's Board of Directors determines the rate for each year and the combined Service Plan Operations and Capital Projects rate for 2018 was 11.75 cents per \$100 valuation. The District contracts with a tax assessor/collector for assessment collection services.

### Budget and Budgetary Accounting

The District's Board of Directors adopts an annual budget for the Service Plan Operations fund, Capital Projects fund and the Greenlink fund. The budget for the Service Plan Operations fund and the Capital Projects fund is based on projected assessments. The budget for the Greenlink fund is based on program sponsorship revenue. Additionally, after adoption, increases and decreases in the budget may be made only upon Board of Directors' approval. A review of revenues and expenditures compared to budget is provided monthly to the Board of Directors with the monthly financial statements.

In addition to approval of the annual budget, the District's Board of Directors must authorize an expenditure more than \$10,000 in advance of the purchase or contract for services. A copy of the check register is provided monthly to the Board of Directors.

### Cash and Cash Equivalents

Cash consists of demand and time deposits, and funds maintained in public funds investment pools. The District considers all deposits with a maturity of three months or less to be cash equivalents.

### Inventories

Inventories consist of supplies held for the use of the District and are carried at cost using the first-in, first-out method. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

### Capital Assets

In the government-wide financial statements, capital assets are recorded at cost and depreciation of capital assets is computed and recorded by the straight-line method and range from 3 to 10 years. In the fund financial statements, fixed assets used in the governmental funds' operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

### Unearned Revenue

Unearned sponsorship payments are amounts received in advance for the operation of the Greenlink Circular Program.

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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### Fund Balance

The difference between fund assets and liabilities is “Net Position” on government-wide financial statements and “Fund Balance” on governmental funds financial statements. The District follows Governmental Accounting Standards Board Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government’s net positions that is applicable to a future reporting period. A deferred inflow represents the acquisition of net positions that is applicable to a future reporting period.

### Fund Balance Hierarchy

Fund balances of governmental funds are classified as:

Nonspendable – amounts that cannot be spent because they are not in a spendable form (not expected to be converted to cash) or are legally required to be maintained intact.

Restricted – amounts where legally enforceable constraints are imposed by an external party such as a creditor, grantor, contributor, or regulations of other governments or constraints imposed by law through contracted provisions or enabling legislation.

Committed – amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the Board of Directors, the District’s highest level of decision-making authority.

Assigned – amounts where constraints are imposed on the use of resources through the intent of the District for specific purposes but are neither restricted nor committed.

Unassigned – the residual amount of the general fund balance more than amounts that are nonspendable or that are restricted, committed, or assigned to specific purposes within the general fund.

In the fund financial statements, the District reserves or designates all or portions of fund balance in the various governmental fund financial statements. The unassigned fund balances for governmental funds represent the amount available for budgeting future operations. The restricted fund balances for governmental funds represent the amount that has been legally identified for specific purposes. The committed fund balances for governmental funds represent balances that have been authorized through formal action by the Board of Directors but not yet spent.

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for a specific purpose may be designated as assigned by authorization of the Board of Directors.

When an expenditure is incurred for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers the amount to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment functions.

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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### New Accounting Pronouncements

Government Accounting Standards Board Statement No. 85, *Omnibus 2017*

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The statement addressed a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The Statement was effective for the District's calendar year 2018 financial statements; however, there were no transactions in 2018 relating to this Statement.

Government Accounting Standards Board Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Effective for the District's calendar year 2019, impact of this Statement will be evaluated by management upon adoption.

Government Accounting Standards Board Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Effective for the District's calendar year 2020, impact of this Statement will be evaluated by management upon adoption.

### Federal Grants

Federal grants and assistance awards made based on entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

### Deferred Inflows of Resources

Deferred inflows of resources are a liability of the District and represent the collection or billing of the subsequent year's special assessment not available within the current period or soon enough thereafter to pay liabilities of the current period. At the beginning of the following year, the amount is removed from the deferred inflows of resources and recognized as revenue.

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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### Federal Income Tax

The District is exempt from Federal income taxes under section 501(a) as an organization described in Section 501(c)3 of the Internal Revenue Code. Furthermore, the Internal Revenue Service has ruled that the District is a publicly-supported organization and is not a private foundation. Under the provisions of Internal Revenue Procedure 95-48, the District is not required to file public information returns on Form 990.

### Use of Estimates

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

### **Note 3 – Deposits and Investments**

Under the Texas Local Government Investment Pool ("TexPool") Participation Agreement, administrative, and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The reported value of the pool is the same as the fair value of the pool shares. TexPool is subject to annual review by an independent auditor consistent with the Public Fund Investment Act. Audited financial statements of the Pool are available at First Public, 12008 Research Blvd. Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller Office. Due to its short-term, highly liquid nature, TexPool investments have been reported as cash equivalents.

As of December 31, 2018, the District held \$11,821,548 in the TexPool Prime fund. The District's investment in the TexPool Prime fund is rated AAA by Standard & Poor's and maintains a weighted average maturity of 60 days or less. The District limits its exposure to interest rate risk by investing in securities that assure safety of public funds, maintain liquidity and achieve the highest rate of return. The TexPool Prime fund invests in a combination of commercial paper, repurchase agreements, variable rate notes, and government securities.

The Board of Directors has adopted a written investment policy regarding the investment of its funds pursuant to Chapter 2256 of the Texas Government Code and Chapter 49 of the Texas Water Code, effective as of December 11, 2014. The investments of the District follow the Board of Directors' investment policy. Such investments may include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) TexPool local government investment pools; and (4) various other items that comply with the Public Funds Investment Act and the District's Investment Policy.

*Custodian Credit Risk – Deposits:* Credit risk for deposits with financial institutions is the risk that in the event of a bank failure, the District's deposits would no longer be available. The District's investment policy requires pledging of collateral for all bank balances in excess of Federal Deposit Insurance Corporation (FDIC) limits and the District has entered into a Collateral Pledge Agreement with J. P. Morgan Chase to provide this service.

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

### Note 4 – Assessments Due From Tax Assessor/Collector

Assessments due from tax assessor/collector as of December 31, 2018 are summarized as follows:

	Service Plan Operations	Capital Projects	Total
Assessments due from tax assessor/collector	\$ 12,540,516	\$ 1,629,704	\$ 14,170,220
Less allowance for delinquent accounts	-	-	-
	\$ 12,540,516	\$ 1,629,704	\$ 14,170,220

The District reviews its allowance annually and has determined that no allowance was necessary as of December 31, 2018.

### Note 5 – Interfund Receivable and Payable

Amounts recorded as due to/from each fund are considered temporary loans that will be repaid in less than one year. At December 31, 2018, the Service Plan Operations fund owed the Capital Projects fund \$126,529.

### Note 6 – Capital Assets

All property and equipment purchased by the District is the property of the District until the District is terminated. If the infrastructure is integrated in and used as a part of the City’s infrastructure, it may be conveyed to the City of Houston, as is the case with the District’s capital projects.

A summary of changes in capital assets during 2018 is as follows:

	January 1	Additions	Retirements	December 31
Banners and banner arms	\$ 463,542	\$ 13,440	\$ -	\$ 476,982
Computer software	5,249	-	-	5,249
Forklift	5,500	-	-	5,500
Golf carts - street team	49,609	6,899	-	56,508
Holiday decorations	224,576	-	-	224,576
Operations center LHI build-out	124,629	295,134	-	419,763
Power lift and generators	75,670	-	-	75,670
Street sweeper	9,995	-	-	9,995
Safety guide PDA & printers	22,592	-	-	22,592
Emergency surveillance equipment	10,000	-	-	10,000
Trolley map stands	20,775	-	-	20,775
Vehicles - Smart Car	18,693	-	-	18,693
Greenlink buses	2,999,269	-	-	2,999,269
	4,030,099	\$ 315,473	\$ -	\$ 4,345,572
Less: accumulated depreciation	(2,223,975)	\$ (303,762)	\$ -	(2,527,737)
	\$ 1,806,124	\$ 11,711	\$ -	\$ 1,817,835

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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### Note 7 – Lease Rental Income

In 2010, the District entered into a five-year lease agreement with a local restaurant to sell food and beverage from the Market Square Park kiosk. The District exercised its option to renew the term for an additional five years, through March of 2020. Operating fees are calculated as follows: the restaurant will pay the District 6% of the first \$1,000,000 in gross sales and 7% of gross sales in excess of \$1,000,000. For the year ended December 31, 2018, total revenue from the Market Square Park kiosk was \$54,558 and is included in Project Revenue.

### Note 8 – Related Party Transactions

The District has an administrative contract with Central Houston, Inc., whereby Central Houston, Inc. provides certain administrative and management services to the District. The District and Central Houston, Inc. share executive management, office space, and administrative support. Central Houston, Inc. provided staffing services to the District in the amount of \$2,761,400 in 2018. As of December 31, 2018, the District had a due to affiliate of \$419,908.

In addition, the District paid \$441,560 in 2018 to Central Houston Civic Improvement, Inc. for its business development program. Such amounts are included in expenditures in the accompanying financial statements.

### Note 9 – Commitments

#### Finger-FSC Crawford, Ltd.

In February of 2013, the District entered into an economic development agreement with Finger-FSC Crawford, Ltd. to provide a grant equal to 75% of the incremental District assessment generated by the project for a term of 15 years from the date of completion of the project and its inclusion on the District's tax assessment roll. The project is for development of approximately 397 residential units and 10,000 square feet of retail on blocks 50 and 51 in the District. In addition, the City of Houston provided a Chapter 380 grant to the owner of the project in the amount that the owner would otherwise be required to pay the City for abandoning the right-of-way of the 1500 block of Prairie Street. The residential property was completed in 2016. The first payment was made to Finger-FSC Crawford, Ltd. in the amount of \$44,552 in 2018.

#### Downtown Living Initiative

The District, in conjunction with the City of Houston and the DRA, created a program in 2012 called the Downtown Living Initiative (DLI) which is designed to incentivize residential development in downtown. Developers are eligible to receive a rebate equal to 75% of the incremental District assessment and City of Houston property taxes generated by the project upon completion for a fifteen-year period up to a maximum of \$15,000 per unit. There is an overall cap of units able to participate in this program of 5,000 units. The application deadline for the DLI program was June 30, 2016 and the program is now closed.

The District has executed DLI agreements with fifteen developers totaling 4,600 units. Projects opened as of the end of 2018 include: SkyHouse Houston, SkyHouse Main, Block 334, Market Square Tower, the Star, Aris Market Square, Eighteen25, Catalyst, 1414 Texas, 1711 Caroline, and the Marlowe. Estimated completion dates for the additional development projects range from the fourth quarter of 2019 through the end of 2021. The residential projects are geographically dispersed throughout several areas of the District, including the Ballpark District, the Historic District and the southern portion of downtown.

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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Developers are required to meet certain deadlines and be in compliance with design guidelines in order to benefit from the incentive program, although extensions may be granted if approved by the board. District liability for DLI assessment rebates to developers is contingent upon renewal of subsequent service plans beyond 2020.

The District has a program to support catalytic retail projects. During 2017, a total of \$180,000 was awarded to two grantees. The Tipping Point received a grant of \$40,000 for the opening of a lifestyle/fashion store at 214 Travis in the historic district. Bravery Chef Hall received a grant of \$140,000 which will activate the street level of the residential project Aris Market Square and feature a food hall concept for rising-star chefs. In 2018, the Tipping Point grant was paid in full and construction was in progress for the Bravery Chef Hall with a scheduled opening in the summer of 2019.

Total payments made by the District during 2018 under its economic development, catalytic and DLI grants was \$351,438. Assuming the service plan is renewed in its current form, the District's commitment for future years is as follows:

Years ending December 31,	
2019	\$ 672,747
2020	686,159
2021	912,532
2022	903,858
2023	930,974
2024-Beyond	<u>10,295,271</u>
Total	<u>\$ 14,401,541</u>

### Service Agreements

The District entered into an interlocal agreement with METRO for operation of the Greenlink transit service. The agreement initially covered a four-year term that ended in June of 2016 but since then has been extended for another four years, through June of 2020, with two additional two-year extensions available. Either party may terminate the agreement at any time with 270 days written notice. The 2018 expenditure by the District for this service is \$1,554,633.

The District entered into an agreement with Block by Block to provide personnel, equipment and supplies for public safety, cleaning and maintenance services for the District beginning on January 1, 2016. The 2018 expenditure by the District under the existing services agreement is \$3,238,001.

The District has entered into several other smaller service agreements for cleaning, landscaping, engineering, design and various consultants to provide professional services.

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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### Note 10 – Lease Agreements

The District leases its operations center and warehouse. The operations center's office lease at 1119 Milam was renewed for a five-year term on May 31, 2016. The operations center office lease contains an early termination right which allows the landlord to terminate the lease at any time with a six-month notice. Lease rental expense amounted to \$102,812 for the year ended December 31, 2018. During 2018, the District entered into a 15-year lease with LVA4 Houston Greenstreet, L.P. for a new operations center facility at 1313 Main. The minimum future lease payments under these lease agreements are as follows:

Year ending December 31,	
2019	\$ 291,027
2020	332,802
2021	266,775
2022	239,956
2023	244,969
Thereafter	<u>2,925,919</u>
Total	<u>\$4,301,448</u>

### Note 11 – Risk Management

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, errors and omissions, personal injuries, and natural disasters. The risk of loss is covered by the Texas Municipal League Intergovernmental Risk Pool. In addition, a portion of the unrestricted fund balance in the amount of \$800,000 has been designated as assigned for catastrophe. There have been no significant reductions in insurance coverage and no settlements.

### Note 12 – Subsequent Events

Management has evaluated subsequent events through June 20, 2019; the date the financial statements were available to be issued. No change to the financial statements is deemed necessary as a result of this evaluation.

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## Schedule of Revenues, Expenditures and Changes in Funds Balances – Budget to Actual (Unaudited)

For the Year Ended December 31, 2018

	Service Plan Operations	Capital Projects	Greenlink	Total	Budget	Variance
<b>Revenues:</b>						
Assessments, net	13,555,352	1,759,916	\$ -	\$ 15,315,268	14,663,472	\$ 651,796
Project revenue	659,088	41,760	749,924	1,450,772	1,402,200	48,572
Interest	265,395	61,828	25,259	352,482	150,000	202,482
<b>Total revenues</b>	<b>14,479,835</b>	<b>1,863,504</b>	<b>775,183</b>	<b>17,118,522</b>	<b>16,215,672</b>	<b>902,850</b>
<b>Expenditures:</b>						
<b>Downtown feels safe &amp; comfortable at all times:</b>						
Collaboration to maintain low crime rate	1,839,039	-	-	1,839,039	2,500,000	660,961
Reduced presence of homeless & street persons	540,858	-	-	540,858	515,000	(25,858)
Downtown sidewalks are comfortably lighted	305,510	-	-	305,510	340,000	34,490
Downtown clean & well-kept appearance	3,440,269	-	-	3,440,269	3,368,500	(71,769)
Remove signs of disorder in downtown	28,063	-	-	28,063	36,500	8,437
Prepare for emergencies	100,984	-	-	100,984	110,000	9,016
	<u>6,254,723</u>	<u>-</u>	<u>-</u>	<u>6,254,723</u>	<u>6,870,000</u>	<u>615,277</u>
<b>Public realm is charming, inviting, beautiful &amp; Celebrates the life of the city:</b>						
Key pedestrian streets are inviting	412,600	-	-	412,600	423,500	10,900
Public spaces managed, programmed, & delightful	863,192	-	-	863,192	978,500	115,308
Place of civic celebration	1,040,942	-	-	1,040,942	760,000	(280,942)
	<u>2,316,734</u>	<u>-</u>	<u>-</u>	<u>2,316,734</u>	<u>2,162,000</u>	<u>(154,734)</u>
<b>Accessible to region &amp; easy to get around:</b>						
Effective transit access more places, more hours	10,800	-	-	10,800	11,000	200
Convenient circulation without personal vehicle	74,516	-	-	74,516	69,500	(5,016)
Easy to find way around	181,609	-	-	181,609	167,500	(14,109)
Connect neighbors & districts inside/outside downtown	50,348	-	-	50,348	47,500	(2,848)
Convenient, understandable & managed parking	16,083	-	-	16,083	15,000	(1,083)
	<u>333,356</u>	<u>-</u>	<u>-</u>	<u>333,356</u>	<u>310,500</u>	<u>(22,856)</u>
<b>Vibrant, sustainable mixed-use place:</b>						
Best place to work in region	244,579	-	-	244,579	275,000	30,421
Exciting neighborhoods to live in	377,579	-	-	377,579	647,900	270,321
Competitive shopping place	49,371	-	-	49,371	47,000	(2,371)
Remarkable destination for visitors	50,497	-	-	50,497	67,000	16,503
	<u>722,026</u>	<u>-</u>	<u>-</u>	<u>722,026</u>	<u>1,036,900</u>	<u>314,874</u>
<b>Downtown's vision &amp; offering understood by all:</b>						
Market to region	885,775	-	-	885,775	1,003,700	117,925
Promote downtown's ease of use	21,981	-	-	21,981	21,000	(981)
Vision/development framework understood by all	742,729	-	-	742,729	909,000	166,271
Tools to assist continued redevelopment	86,503	-	-	86,503	80,000	(6,503)
Develop & maintain information to support downtown	32,064	-	-	32,064	32,000	(64)
	<u>1,769,052</u>	<u>-</u>	<u>-</u>	<u>1,769,052</u>	<u>2,045,700</u>	<u>276,648</u>

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Funds Balances – Budget to Actual**  
**(Unaudited)**  
**For the Year Ended December 31, 2018**

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	Service Plan Operations	Capital Projects	Greenlink	Total	Budget	Variance
<b>District governance &amp; service known for excellence:</b>						
Engage stakeholders in decision making	705,424	-	-	705,424	770,903	65,479
Communications to owners, tenants & others	23,464	-	-	23,464	26,500	3,036
Preservation of districts' capital assets	54,483	-	-	54,483	76,857	22,374
	<u>783,371</u>	<u>-</u>	<u>-</u>	<u>783,371</u>	<u>874,260</u>	<u>90,889</u>
<b>Capital improvement &amp; expenditures:</b>						
Downtown feels safe & comfortable	-	252,478	-	252,478	890,000	637,522
Public realm is charming, inviting, & beautiful	-	462,155	-	462,155	525,000	62,845
Accessible to region & easy to get around	-	491,766	-	491,766	1,705,000	1,213,234
Vibrant, sustainable mixed-use place	-	32,175	-	32,175	132,163	99,988
Capital replacement expenditure	-	144,628	-	144,628	399,989	255,361
	<u>-</u>	<u>1,383,202</u>	<u>-</u>	<u>1,383,202</u>	<u>3,652,152</u>	<u>2,268,950</u>
<b>Accessible to region and easy to get around:</b>						
Vehicle operator	-	-	1,453,089	1,453,089	1,350,000	(103,089)
Fuel	-	-	101,544	101,544	107,000	5,456
Marketing	-	-	73,823	73,823	75,000	1,177
Operating administrative expense	-	-	-	-	10,000	10,000
Administrative	-	-	255,209	255,209	249,939	(5,270)
	<u>-</u>	<u>-</u>	<u>1,883,665</u>	<u>1,883,665</u>	<u>1,791,939</u>	<u>(91,726)</u>
<b>Total expenditures</b>	<u>12,179,262</u>	<u>1,383,202</u>	<u>1,883,665</u>	<u>15,446,129</u>	<u>18,743,451</u>	<u>3,297,322</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 2,300,573</u>	<u>\$ 480,302</u>	<u>\$ (1,108,482)</u>	<u>\$ 1,672,393</u>	<u>\$ (2,527,779)</u>	<u>\$ 4,200,172</u>

**HOUSTON DOWNTOWN MANAGEMENT DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Funds Balances – Budget to Actual**  
**(Unaudited)**  
**For the Year Ended December 31, 2018**

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**Reconciliation of Differences Between Budgetary Inflows and GAAP Revenues:**

<b>Sources/ Inflows of Resources</b>	\$ 17,118,522
Differences - budget to GAAP:	
The fund balance at the beginning of the year is not a budgetary resource but is a current year revenue for financial reporting purposes.	(5,681)
Interfund transfer	450,000
Total revenue as reported on the statement of governmental fund revenues, expenditures, and changes in fund balances	\$ 17,562,841

**Reconciliation of Differences Between Budgetary Outflows and GAAP Expenditures:**

<b>Uses/ Outflows of Resources</b>	\$ 15,446,129
Differences - budget to GAAP:	
Expenditures budgeted on accrual basis rather than modified accrual basis.	(11,100)
Interfund transfer	450,000
Capital outlay	315,473
Depreciation expense	(303,762)
Total expenditure as reported on the statement of governmental fund revenues, expenditures, and changes in fund balances	\$ 15,896,740

# HOUSTON DOWNTOWN MANAGEMENT DISTRICT

## Notes to Required Supplementary Information

(Unaudited)

For the Year Ended December 31, 2018

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Annual budgets are adopted on a full accrual basis. Reconciliation of budgetary basis to modified accrual is included with the budgetary comparison schedule. The legal level of control is at the fund level.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to December 31, the District's Board will review and approve the operating and capital improvement budgets for the succeeding year. Assessment rates for operations and capital improvements are set in the fourth quarter prior to the first year of a new five-year service plan and prior to each succeeding year of a service plan if changes to the initial rates are to be made.
- b. Budget preparation also involves the following before adoption:
  1. Review of needs and priorities within the District.
  2. Review of draft budget by board committees.
  3. Review of draft budget by the District's Board.
  4. Receipt of property owner input through Town Hall Meeting or another format.

Prior to December 31, the budget is legally enacted through passage of a Board resolution by the favorable vote of a majority of the members of the Board. No amendments were made to the budget during the year.