

**HOUSTON DOWNTOWN
MANAGEMENT DISTRICT**

Houston, Texas

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

DECEMBER 31, 2017

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, 2017, 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, 2017, 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 14, 2018

HOUSTON DOWNTOWN MANAGEMENT DISTRICT
Management's Discussion and Analysis (Unaudited)
December 31, 2017

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, 2017.

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 second 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, 2017, there were no known claims.

Assessment Plan

Assessments for 2017 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 2017

Assessment Revenues

The District's assessment rate for 2017 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 \$14,003,070. 1.35¢ was for capital and resulted in net revenues of \$1,816,698.

Capital Projects

During 2017, the District focused on capital replacement projects including replacement of approximately 50 banner poles on McKinney/Lamar in the amount of \$141,061, completion of the Main Street Square fountain refurbishment project in the amount of \$113,154, replacement/enhancement of the lighting at Market Square Park in the amount of \$145,314, construction of a sidewalk between Minute Maid Park and the George R. Brown Convention Center on Avenidas de las Americas in the amount of \$38,405, and various other small replacement projects totaling \$257,523. In addition, funds from the TxDOT grant for the International Coffee Building in the amount of \$232,549 were received and payment made to Buffalo Bayou Partnership to complete the construction of the building. The board authorized a new capital project, in the amount of \$850,000 to add lighting to approximately 30 vehicular wayfinding signs and \$469,257 was spent on the project during 2017.

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 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.

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The District has executed DLI agreements with sixteen developers totaling 4,607 units. Projects opened as of the end of 2017 include: SkyHouse Houston, SkyHouse Main, Block 334, Market Square Tower, the Star, Aris Market Square, Eighteen25, Catalyst, and Alexan Downtown. Estimated completion dates for the additional development projects range from the second quarter of 2018 through the end of 2020. 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 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. During 2017, a total of \$73,344 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 \$427,122 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 in order 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. No payments were made to Finger-FSC Crawford, Ltd. under this grant in 2017.

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.

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Downtown Improvements Maintenance Agreement

The District is responsible for maintaining improvements (pavers, trees, landscaping, irrigation systems, lighting, etc.) within the street right of way that were installed as part of the various improvement projects (Cotswold, Transit Streets, Southeast Streetscape, Main Street, Market Square Park, and Main Street Square). Adjacent property owners to Main Street Square fund a portion of the Square's maintenance cost. A signed agreement with the City delineates the maintenance responsibility for the District.

During 2017, the District expended \$174,276 for paver repair work, \$127,494 for street light maintenance, \$807,834 for landscaping/irrigation maintenance, \$333,715 for floral displays, \$139,317 for Main Street Square maintenance, and \$157,664 for Market Square Park maintenance. Adjacent property owners reimbursed the District \$46,415 for Main Street Square fountain maintenance. Rent and utility reimbursements from the food vendor generated \$64,794 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 2017, the District incurred \$217,717 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 2017, the Street Team program was funded in the amount of \$1,801,178 to provide litter and trash pick-up on a seven day a week basis, sidewalk pressure washing, graffiti abatement, and a recycle program. The trash subscription program provides \$186,737 in offsetting revenues. Also in 2017, the District provided METRO bus stop cleaning services and received \$211,768 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 \$1,300,692 for the guide program during 2017. In addition, the District engages Off-Duty Houston Police Officers on a part-time basis to deploy in strategic areas. The District spent \$411,246 for the Off-Duty Officer program during 2017.

The District is committed to, and funded, programs to reduce homelessness, spending \$320,753 during the past year, receiving \$42,855 in grants from the City of Houston to offset a portion of these expenses. The organization contributed \$80,052 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. During 2017, the District was required to temporarily relocate the operations center to 1102 Travis during the demolition period for the adjacent office tower at 801 Dallas. The District also leases additional warehouse storage space for equipment and extra stock

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storage. Annual rent, utilities and improvements for office and warehouse space totaled \$227,411, which included \$73,007 in leasehold improvements required to build out the landlord's designated temporary space.

Banner Poles and Holiday Decorations

The District provides street banners and holiday decorations for downtown. During 2017, \$247,699 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 during 2017 to provide regular cleaning, repairs, and replacement of damaged signs. A total of \$37,512 was spent during 2017 on wayfinding signage maintenance.

Marketing and Communications Program

In 2017, 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. Total expenditures for marketing and communications were \$617,839 in 2017, with revenues from the *downtown* magazine advertising totaling approximately \$63,358. The District continued the use of a retail consultant and \$30,000 was spent to support the retail initiatives. Holiday promotions totaled \$30,406 and the District contributed \$25,000 to the Learn Central initiative to support the web portal of information available to residents of the central city to navigate the educational choices available for their families. In addition, \$67,414 was spent toward creative, production, photography and content to update the District website.

The District also refreshed 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 a series of video shorts called "Sidewalk Cinema" at 1111 Main. The District incurred expenditures of \$168,187 during 2017 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 \$183,694 on its economic development program during 2017, which is conducted in partnership with Central Houston, Inc. A new Director was hired for the program in May of 2017.

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Planning

The planning efforts of the District were largely focused on a comprehensive planning effort called *Plan Downtown: Converging Culture, Lifestyle & Commerce*. Plan Downtown is the product of an 18-month planning process led by the District, its partner organizations and city, county and community leaders. The leadership group and steering committee worked together along with a consulting team of urban planners, landscape architects, and economic development experts to provide guidance for urban planning policy and civic development goals in the central city over the next 20 years. A total of \$1,041,039 was spent by the District on this planning process with reimbursements of \$300,000 from Houston First and \$250,000 from the Downtown Redevelopment Authority. The District also continued the work on the North Houston Highway Improvement Plan and a total of \$213,780 was spent on this planning effort during 2017.

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 \$170,072 during 2017 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 \$26,277 in offsetting event revenue at Market Square Park.

In 2017, the District continued its regular programming at Main Street Square including: a summer movie series, the HeartMade Art Market, and painting parties under the canopy of the Trumpet Flower. A total of \$94,402 was spent on programming in Main Street Square during 2017.

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 basic 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, 2017 and 2016:

| | 2017 | 2016 |
|---|---------------|---------------|
| Capital assets, net | \$ 1,806,124 | \$ 2,010,891 |
| Other assets: | | |
| Cash and cash equivalents | 12,402,506 | 9,097,088 |
| Assessments, net | 13,279,717 | 12,257,109 |
| Accounts receivable and prepaid expenses | 160,342 | 830,438 |
| Inventory | 101,033 | 104,564 |
| Total assets | 27,749,722 | 24,300,090 |
| Total liabilities | 1,889,763 | 1,893,261 |
| Net position: | | |
| Invested in capital assets, net of related debt | 1,806,124 | 2,010,891 |
| Restricted for capital projects | 3,748,040 | 2,747,753 |
| Restricted for Greenlink | 1,483,238 | 1,429,971 |
| Unrestricted | 18,822,557 | 16,218,214 |
| Total net position | \$25,859,959 | \$ 22,406,829 |

Assets

As of December 31, 2017, the District's assets totaled \$27,749,722 versus \$24,300,090 as of December 31, 2016. At year-end, the District had \$8,353,893 of cash on hand for service plan operations, \$2,411,266 for capital projects and \$1,637,347 for the Greenlink circulator program. Funds not needed for immediate operations are invested in TexPool accounts. Investments are reviewed quarterly by the board of directors. Net capital assets of the District were \$1,806,124 as of December 31, 2017, which reflects \$293,821 of depreciation expense from the net capital asset balance of \$2,010,891 as of December 31, 2016. Net assessment receivable as of December 31, 2017 totaled \$13,279,717 versus \$12,257,109 as of December 31, 2016.

Liabilities

At December 31, 2017, the District's liabilities totaled \$1,889,763 versus \$1,893,261 as of December 31, 2016. The liabilities are primarily accounts payable, accrued expenses and unearned revenue. During 2017, the District had a balance of \$1,889,763 including \$150,000 related to the Greenlink circulator program. During 2016, the District had a balance of \$1,893,261 including \$150,000 related to the Greenlink circulator program.

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Net Positions

Net position at year-end 2017 totaled \$25,859,959. Net position in 2017 is classified as invested in capital assets, restricted for capital projects, restricted for Greenlink and unrestricted, which totaled \$1,806,124, \$3,748,040, \$1,483,238 and \$18,822,557, respectively. In 2016, net position totaled \$22,406,829 and were classified as invested in capital assets, restricted for capital projects, restricted for Greenlink and unrestricted totaled \$2,010,891, \$2,747,753, \$1,429,971 and \$16,218,214, respectively.

Net position for the District increased by \$3,453,130.

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, 2017 and 2016:

| Revenues: | <u>2017</u> | <u>2016</u> |
|--|----------------------------|-----------------------------|
| Assessments, net - service plan operations | \$14,003,070 | \$ 12,457,708 |
| Assessments, net - capital projects | 1,816,698 | 1,582,196 |
| Greenlink sponsor revenues | 877,122 | 804,533 |
| Other | 1,757,123 | 1,227,064 |
| Total | <u><u>\$18,454,013</u></u> | <u><u>\$ 16,071,501</u></u> |

In 2017, revenues totaled \$18,454,013 compared to \$16,071,501 in 2016. Assessment revenue increased by \$1,779,864 due to the property values added in the supplemental roll (properties with improvements in excess of \$1 million) and due to a substantial decrease in the reserve for refunds attributable to property valuations remaining in litigation. Operations revenue has increased by \$82,939 due to increases in the trash program and METRO rates and \$23,208 in reimbursements for the Main Street Fountain. Marketing partnership revenue has increased by \$39,326 due to increased advertising revenue from the magazine and events. Miscellaneous reimbursements increased by \$143,304 from contractors payments to repair irrigation systems damaged in the process of their construction and salary reimbursements decreased by \$54,152 due to changes in staff allocations. Project revenue increased by \$200,000 due to contributions from third parties for *Plan Downtown*. Interest income increased by \$87,972 due to an increase in interest earnings rates on investments. Greenlink sponsor revenues increased by \$72,589 as additional funds were required to support the added night/weekend route and increase in METRO rates.

| Expenditures: | <u>2017</u> | <u>2016</u> |
|-------------------------|----------------------------|-----------------------------|
| Service plan operations | \$11,830,325 | \$ 10,219,491 |
| Capital projects | 1,632,700 | 2,276,851 |
| Greenlink expenditures | 1,537,858 | 1,389,925 |
| Total | <u><u>\$15,000,883</u></u> | <u><u>\$ 13,886,267</u></u> |

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In 2017, expenditures totaled \$15,000,883 compared to \$13,886,267 in 2016. The total increase in service plan operations over 2016 of \$1,610,834 was primarily due to increased budgets for the following programs: \$229,274 for additional Public Safety Guide personnel, \$59,847 for additional Street Team personnel, \$345,231 in landscaping/floral enhancements, \$166,991 in irrigation repairs (\$152,548 reimbursed by contractors) and \$1,128,060 in planning expenditures due to *Plan Downtown*, offset by a decrease in Art Blocks programming. There was a reduction of \$644,151 in capital expenditures as the Main Street fountain refurbishment expenditures were incurred primarily in 2016, and \$147,933 in increased expenditures due to adding the night/weekend Greenlink route and special routes during the SuperBowl LI.

Budgetary Highlights

Service plan operations

| | 2017 | | 2016 | |
|---|-------------------------|-----------------------|-------------------------|-----------------------|
| | Actual | Budget | Actual | Budget |
| Revenues: | <u>\$14,904,346</u> | <u>\$ 12,899,914</u> | <u>\$ 13,078,703</u> | <u>\$ 12,431,745</u> |
| Expenditures: | | | | |
| Downtown feels safe and comfortable | 6,115,353 | 6,025,500 | 5,552,313 | 5,829,484 |
| Public realm is charming, inviting, beautiful | 1,743,906 | 1,887,500 | 1,860,598 | 2,014,500 |
| Accessible to region and easy to get around | 283,346 | 374,500 | 306,922 | 332,500 |
| Vibrant, sustainable mixed-use place | 448,807 | 752,000 | 530,266 | 489,000 |
| Downtown's vision understood by all | 2,432,997 | 2,821,000 | 1,186,175 | 1,925,200 |
| District governance known for excellence | <u>805,916</u> | <u>873,725</u> | <u>783,217</u> | <u>881,256</u> |
| Total expenditures | <u>11,830,325</u> | <u>12,734,225</u> | <u>10,219,491</u> | <u>11,471,940</u> |
| Revenues in excess of expenditures | <u>\$ 3,074,021</u> | <u>\$ 165,689</u> | <u>\$ 2,859,212</u> | <u>\$ 959,805</u> |

- Overall, 2017 service plan operations revenues were ahead of budget by \$2,004,432, of which \$648,782 is attributable to revenue from the supplemental roll and \$1,032,324 is attributable to reversal of the reserve for refunds on valuations in litigation.
- Service plan operations expenditures for 2017 were less than budget by \$903,900. Personnel costs were over budget by \$107,279 (4%) due to a change in allocation of personnel expenditures between the District and the Downtown Redevelopment Authority, maintenance expenditures were under budget by \$78,569, marketing by \$383,871, economic development by \$82,306, planning and design by \$183,246 and administrative expenses were under budget by \$281,324 due to delays in Downtown Living Initiative project reimbursement requests.

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Capital projects

| | 2017 | | 2016 | |
|---|---------------------|---------------------|--------------------|-----------------------|
| | Actual | Budget | Actual | Budget |
| Revenues: | \$ 2,658,479 | \$ 1,804,399 | \$ 2,180,803 | \$ 1,963,401 |
| Expenditures: | | | | |
| Downtown feels safe and comfortable | - | 200,000 | 20,000 | 70,000 |
| Public realm is charming, inviting, beautiful | 439,011 | 459,729 | 396,621 | 855,000 |
| Accessible to region and easy to get around | 679,000 | 1,205,000 | 1,638,462 | 2,558,000 |
| Vibrant, sustainable mixed-use place | 188,251 | 290,365 | 30,707 | 250,000 |
| District governance known for excellence | 326,438 | 372,121 | 191,061 | 391,000 |
| Total expenditures | <u>1,632,700</u> | <u>2,527,215</u> | <u>2,276,851</u> | <u>4,124,000</u> |
| Revenues in excess (deficit) of expenditures | <u>\$ 1,025,779</u> | <u>\$ (722,816)</u> | <u>\$ (96,048)</u> | <u>\$ (2,160,599)</u> |

- Capital projects revenues for 2017 were ahead of budget by \$854,080, of which \$84,217 is attributable to revenue from the supplemental roll and \$130,857 is attributable to reversal of the reserve for refunds on valuations in litigation. \$250,000 is from the Downtown Redevelopment Authority and \$300,000 is from Houston First as reimbursements for *Plan Downtown*.
- Expenditures for 2017 were \$894,515 less than budget due to delayed irrigation projects of \$200,000 and unspent funds of \$200,000 for new holiday decorations, savings of \$77,180 on the International Coffee Building expenditures, \$70,000 in retail grants, \$32,114 in Downtown Living Initiative grant reimbursement payments and \$45,684 of capital replacement expenditures. Offsetting the savings was \$113,154 spent on the Main Street fountain and \$72,400 on Market Square Park lighting that was originally budgeted in 2016. In addition, approximately \$380,000 of the vehicular electrification of wayfinding signage payments originally budgeted for 2017 were delayed until 2018.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT
Management's Discussion and Analysis (Unaudited)
December 31, 2017

| Greenlink | 2017 | | 2016 | |
|--|------------------|------------------|------------------|--------------------|
| | Actual | Budget | Actual | Budget |
| Revenues: | \$ 891,188 | \$ 804,138 | \$ 811,995 | \$ 751,200 |
| Expenditures: | | | | |
| Vehicle operator expense | 1,173,574 | 1,285,000 | 977,393 | 1,220,000 |
| Fuel expense | 92,350 | 110,700 | 92,199 | 116,500 |
| Marketing expense | 11,998 | 48,000 | 17,074 | 114,000 |
| Operating administrative expense | 9,997 | 61,800 | 53,320 | 60,000 |
| Depreciation expense | 249,939 | 249,936 | 249,939 | 249,936 |
| Total expenditures | 1,537,858 | 1,755,436 | 1,389,925 | 1,760,436 |
| Revenues in excess (deficit) of expenditures | \$ (646,670) | \$ (951,298) | \$ (577,930) | \$ (1,009,236) |

- Greenlink revenue exceeded budget by \$87,050. A grant was received from the Texas Commission on Environmental Quality and revenue was recorded in the amount of \$427,122 for the 2017 portion of the grant, higher than was originally budgeted.
- Greenlink expenditures were less than budget by \$217,578. This is primarily due to less than expected operator expenses of \$111,425, savings in fuel of \$18,350, and savings in marketing and administration of \$87,800. The savings with regard to marketing and administration resulted from the decision to not re-brand the Greenlink vehicles until the partners were ready to re-launch with the new routes.

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, 2017

| | Service Plan Operations | Capital Projects | Greenlink | Total | Adjustments | Statement of Net Position |
|--|-------------------------------|---------------------|---------------------|----------------------|----------------------|---------------------------------|
| <u>Assets</u> | | | | | | |
| Cash and cash equivalents | \$ 8,353,893 | \$ 2,411,266 | \$ 1,637,347 | \$ 12,402,506 | \$ - | \$ 12,402,506 |
| Accounts receivable | 81,633 | - | - | 81,633 | - | 81,633 |
| Prepaid expenses | 78,709 | - | - | 78,709 | - | 78,709 |
| Assessment due from tax collector, less allowance for delinquent accounts | 11,752,453 | 1,527,264 | - | 13,279,717 | - | 13,279,717 |
| Inventory | - | - | 101,033 | 101,033 | - | 101,033 |
| Interfund receivable (payable) | (112,800) | 112,800 | - | - | - | - |
| Capital assets, net | - | - | - | - | 1,806,124 | 1,806,124 |
| Total assets | <u>\$ 20,153,888</u> | <u>\$ 4,051,330</u> | <u>\$ 1,738,380</u> | <u>\$ 25,943,598</u> | <u>\$ 1,806,124</u> | <u>\$ 27,749,722</u> |
| <u>Liabilities</u> | | | | | | |
| Accounts payable and accrued expenses | 851,867 | 291,785 | 105,142 | 1,248,794 | - | 1,248,794 |
| Due to affiliate | 403,051 | - | - | 403,051 | 87,918 | 490,969 |
| Unearned sponsorship payments | - | - | 150,000 | 150,000 | - | 150,000 |
| Total liabilities | <u>1,254,918</u> | <u>291,785</u> | <u>255,142</u> | <u>1,801,845</u> | <u>87,918</u> | <u>1,889,763</u> |
| <u>Deferred Inflows of Resources</u> | | | | | | |
| Tax assessments | 88,563 | 11,505 | - | 100,068 | (100,068) | - |
| Total deferred inflows of resources | <u>88,563</u> | <u>11,505</u> | <u>-</u> | <u>100,068</u> | <u>(100,068)</u> | <u>-</u> |
| <u>Fund Balances</u> | | | | | | |
| Fund balances: | | | | | | |
| Nonspendable-inventories and prepayments | 78,709 | - | 101,033 | 179,742 | (179,742) | - |
| Restricted for capital projects | - | 3,748,040 | - | 3,748,040 | (3,748,040) | - |
| Restricted for Greenlink | - | - | 1,382,205 | 1,382,205 | (1,382,205) | - |
| Assigned for catastrophe | 800,000 | - | - | 800,000 | (800,000) | - |
| Unassigned | 17,931,698 | - | - | 17,931,698 | (17,931,698) | - |
| Total fund balances | <u>18,810,407</u> | <u>3,748,040</u> | <u>1,483,238</u> | <u>24,041,685</u> | <u>(24,041,685)</u> | <u>-</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 20,153,888</u> | <u>\$ 4,051,330</u> | <u>\$ 1,738,380</u> | <u>\$ 25,943,598</u> | | |
| Net position: | | | | | | |
| Invested in capital assets, net of related debt | | | | | 1,806,124 | 1,806,124 |
| Restricted for capital projects | | | | | 3,748,040 | 3,748,040 |
| Restricted for Greenlink | | | | | 1,483,238 | 1,483,238 |
| Unrestricted | | | | | 18,822,557 | 18,822,557 |
| Total net position | | | | | <u>\$ 25,859,959</u> | <u>\$ 25,859,959</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, 2017

| | |
|---|----------------------|
| Total fund balances of total governmental funds | \$ 24,041,685 |
| 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 | 1,806,124 |
| Compensated absences | (87,918) |
| Unavailable tax assessment revenue | <u>100,068</u> |
| Net position of governmental activities | <u>\$ 25,859,959</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, 2017

| | Service Plan Operations | Capital Projects | Greenlink | Total | Adjustments | Statement of Activities |
|---|-------------------------------|---------------------|------------------|-------------------|------------------|-------------------------------|
| Revenues: | | | | | | |
| Assessments, net | \$ 14,122,248 | \$ 1,831,527 | \$ - | \$ 15,953,775 | \$ (134,007) | \$ 15,819,768 |
| Project revenue | 773,434 | 818,654 | 1,327,123 | 2,919,211 | (450,000) | 2,469,211 |
| Interest | 127,842 | 23,127 | 14,065 | 165,034 | - | 165,034 |
| Total revenues | <u>15,023,524</u> | <u>2,673,308</u> | <u>1,341,188</u> | <u>19,038,020</u> | <u>(584,007)</u> | <u>18,454,013</u> |
| Expenditures: | | | | | | |
| Downtown feels safe & comfortable at all times: | | | | | | |
| Collaboration to maintain low crime rate | 1,879,941 | - | - | 1,879,941 | - | 1,879,941 |
| Reduced presence of homeless & street persons | 425,659 | - | - | 425,659 | - | 425,659 |
| Downtown sidewalks are comfortably lighted | 387,148 | - | - | 387,148 | - | 387,148 |
| Downtown clean & well-kept appearance | 3,321,069 | - | - | 3,321,069 | (24,634) | 3,296,435 |
| Remove signs of disorder in downtown | 37,351 | - | - | 37,351 | - | 37,351 |
| Prepare for emergencies | 88,819 | - | - | 88,819 | - | 88,819 |
| | <u>6,139,987</u> | <u>-</u> | <u>-</u> | <u>6,139,987</u> | <u>(24,634)</u> | <u>6,115,353</u> |
| Public realm is charming, inviting, beautiful & celebrates the life of the city: | | | | | | |
| Celebrates the life of the city: | | | | | | |
| Key pedestrian streets are inviting | 386,947 | - | - | 386,947 | - | 386,947 |
| Public spaces managed, programmed, & delightful | 796,058 | - | - | 796,058 | - | 796,058 |
| Place of civic celebration | 560,901 | - | - | 560,901 | - | 560,901 |
| | <u>1,743,906</u> | <u>-</u> | <u>-</u> | <u>1,743,906</u> | <u>-</u> | <u>1,743,906</u> |
| Accessible to region & easy to get around: | | | | | | |
| Effective transit access more places, more hours | 10,536 | - | - | 10,536 | - | 10,536 |
| Convenient circulation without personal vehicle | 530,688 | - | - | 530,688 | (450,000) | 80,688 |
| Easy to find way around | 89,069 | - | - | 89,069 | - | 89,069 |
| Connect neighbors & districts inside/outside downtown | 83,973 | - | - | 83,973 | - | 83,973 |
| Convenient, understandable & managed parking | 19,080 | - | - | 19,080 | - | 19,080 |
| | <u>733,346</u> | <u>-</u> | <u>-</u> | <u>733,346</u> | <u>(450,000)</u> | <u>283,346</u> |
| Vibrant, sustainable mixed-use place: | | | | | | |
| Best place to work in region | 175,903 | - | - | 175,903 | - | 175,903 |
| Exciting neighborhoods to live in | 178,522 | - | - | 178,522 | - | 178,522 |
| Competitive shopping place | 83,949 | - | - | 83,949 | - | 83,949 |
| Remarkable destination for visitors | 10,433 | - | - | 10,433 | - | 10,433 |
| | <u>448,807</u> | <u>-</u> | <u>-</u> | <u>448,807</u> | <u>-</u> | <u>448,807</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 (continued)
Year Ended December 31, 2017

| | Service Plan Operations | Capital Projects | Greenlink | Total | Adjustments | Statement of Activities |
|--|-------------------------------|---------------------|---------------------|----------------------|---------------------|-------------------------------|
| Downtown's vision & offering understood by all: | | | | | | |
| Market to region | 849,511 | - | - | 849,511 | - | 849,511 |
| Promote downtown's ease of use | 21,219 | - | - | 21,219 | - | 21,219 |
| Vision/development framework understood by all | 1,434,520 | - | - | 1,434,520 | - | 1,434,520 |
| Tools to assist continued redevelopment | 93,443 | - | - | 93,443 | - | 93,443 |
| Develop & maintain information to support downtown | 34,304 | - | - | 34,304 | - | 34,304 |
| | <u>2,432,997</u> | <u>-</u> | <u>-</u> | <u>2,432,997</u> | <u>-</u> | <u>2,432,997</u> |
| District governance & service known for excellence: | | | | | | |
| Engage stakeholders in decision making | 741,993 | - | - | 741,993 | (2,631) | 739,362 |
| Communications to owners, tenants & others | 14,122 | - | - | 14,122 | - | 14,122 |
| Preservation of districts' capital assets | 32,649 | - | - | 32,649 | 19,783 | 52,432 |
| | <u>788,764</u> | <u>-</u> | <u>-</u> | <u>788,764</u> | <u>17,152</u> | <u>805,916</u> |
| Capital improvement & expenditures: | | | | | | |
| Public realm is charming, inviting, & beautiful | - | 503,431 | - | 503,431 | (64,420) | 439,011 |
| Accessible to region & easy to get around | - | 679,000 | - | 679,000 | - | 679,000 |
| Vibrant, sustainable mixed-use place | - | 188,251 | - | 188,251 | - | 188,251 |
| Capital replacement expenditure | - | 302,339 | - | 302,339 | 24,099 | 326,438 |
| | <u>-</u> | <u>1,673,021</u> | <u>-</u> | <u>1,673,021</u> | <u>(40,321)</u> | <u>1,632,700</u> |
| Accessible to region and easy to get around: | | | | | | |
| Vehicle operator | - | - | 1,173,574 | 1,173,574 | - | 1,173,574 |
| Fuel | - | - | 92,350 | 92,350 | - | 92,350 |
| Marketing | - | - | 11,998 | 11,998 | - | 11,998 |
| Administrative | - | - | 9,999 | 9,999 | 249,937 | 259,936 |
| | <u>-</u> | <u>-</u> | <u>1,287,921</u> | <u>1,287,921</u> | <u>249,937</u> | <u>1,537,858</u> |
| Total expenditures | <u>12,287,807</u> | <u>1,673,021</u> | <u>1,287,921</u> | <u>15,248,749</u> | <u>(247,866)</u> | <u>15,000,883</u> |
| Excess (deficiency) of revenues over expenditures | 2,735,717 | 1,000,287 | 53,267 | 3,789,271 | (3,789,271) | - |
| Change in net position | | | | | 3,453,130 | 3,453,130 |
| Fund balances/net position: | | | | | | |
| Beginning of year | 16,074,690 | 2,747,753 | 1,429,971 | 20,252,414 | 2,154,415 | 22,406,829 |
| End of year | <u>\$ 18,810,407</u> | <u>\$ 3,748,040</u> | <u>\$ 1,483,238</u> | <u>\$ 24,041,685</u> | <u>\$ 1,818,274</u> | <u>\$ 25,859,959</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, 2017

| | |
|--|---------------------|
| Net change in total fund balance of governmental funds | \$ 3,789,271 |
| 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 Outlay | 89,054 |
| Depreciation expense | (293,821) |
| 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 | |
| | 2,633 |
| 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>(134,007)</u> |
| Change in net position of statement of activities | <u>\$ 3,453,130</u> |

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

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

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 include downtown feels safe and comfortable at all times; 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 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, 2017

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 the purpose of 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, 2017

Special Assessment

The District's assessment was levied on November 11, 2015 for a five year period on the basis of 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 2017 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 on a monthly basis 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 in excess of \$10,000 in advance of the purchase or contract for services. A copy of the check register is provided on a monthly basis for 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, 2017

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 in excess of 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, 2017

New Accounting Pronouncements

Government Accounting Standards Board Statement No. 81, *Irrevocable Split-Interest Agreements*

The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement was effective for the District's calendar year 2017 financial statements; however, there were no transactions in 2017 relating to this Statement.

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. Effective for the District's calendar year 2018, impact of this Statement will be evaluated by management upon adoption.

Federal Grants

Federal grants and assistance awards made on the basis of 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.

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.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

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, 2017, the District held \$11,070,067 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 are in compliance with 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.

Note 4 – Assessments Due From Tax Assessor/Collector

Assessments due from tax assessor/collector as of December 31, 2017 are summarized as follows:

| | Service Plan Operations | Capital Projects | Total |
|--|------------------------------------|-----------------------------|----------------------|
| Assessments due from tax assessor/collector | \$ 11,801,361 | \$ 1,533,670 | \$ 13,335,031 |
| Less allowance for delinquent accounts | (48,908) | (6,406) | \$ (55,314) |
| | <u>\$ 11,752,453</u> | <u>\$ 1,527,264</u> | <u>\$ 13,279,717</u> |

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

The allowance for delinquent accounts includes amounts that represent District liability for refunds issued as a result of property tax protests. The allowance has been estimated at .5% of the amount assessed and has been decreased to account for the number of properties in litigation which have been settled and those which are currently protesting property tax valuations. The District reviews its allowance annually.

Note 5 – Interfund Receivable and Payable

Amounts recorded as due to/from each fund are considered to be temporary loans and will be repaid in less than one year. At December 31, 2017, the Service Plan Operations fund owed the Capital Projects fund \$112,800.

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 2017 is as follows:

| | January 1 | Additions | Retirements | December 31 |
|----------------------------------|--------------|--------------|--------------|--------------|
| Banners and banner arms | \$ 618,322 | \$ 64,420 | \$ (219,200) | \$ 463,542 |
| Computer software | 27,353 | - | (22,104) | 5,249 |
| Forklift | 5,500 | - | - | 5,500 |
| Golf carts - street team | 58,523 | 14,639 | (23,553) | 49,609 |
| Holiday decorations | 224,576 | - | - | 224,576 |
| Operations center LHI build-out | 124,629 | - | - | 124,629 |
| Power lift and generators | 84,170 | - | (8,500) | 75,670 |
| Street sweeper | 20,749 | 9,995 | (20,749) | 9,995 |
| Safety guide PDA & printers | 72,289 | - | (49,697) | 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 |
| Total | 4,284,848 | 89,054 | (343,803) | 4,030,099 |
| Less: accumulated depreciation | (2,273,957) | (293,821) | 343,803 | (2,223,975) |
| Capital Assets, net | \$ 2,010,891 | \$ (204,767) | \$ - | \$ 1,806,124 |

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

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, 2017, total revenue from the Market Square Park kiosk was \$64,794 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 \$2,813,873 in 2017. As of December 31, 2017, the District had a due to affiliate of \$403,051.

In addition, the District paid \$340,069 in 2017 to Central Houston Civic Improvement, Inc. for its business development program. Such amounts are included in expenditures in the accompanying financial statements.

The District received \$250,000 in 2017 from the Downtown Redevelopment Authority (DRA) for work performed by the District for DRA projects.

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. No payments were made to Finger-FSC Crawford, Ltd. under this grant in 2017.

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.

As of December 31, 2017, the District had executed DLI agreements with sixteen developers totaling 4,607 units. The first project, Skyhouse Houston, located at 1625 Main Street opened in July of 2014. Projects opened in 2017 include: SkyHouse Main, Block 334, Market Square Tower, the Star, Aris Market Square, Eighteen25, Catalyst, and Alexan Downtown. Estimated completion dates from the

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

additional development projects range from the second quarter of 2018 through the second quarter of 2020. 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 be in compliance with design guidelines in order to benefit from the incentive program. District liability for DLI assessment rebates to developers is contingent upon renewal of subsequent service plans beyond 2020.

In June of 2015, the District awarded a catalytic grant in the amount of \$46,500 to Your Pie, a casual pizza concept restaurant located within the ground level retail in the SkyHouse residential tower in the southern portion of downtown. The grant is payable upon opening and submission of construction receipts and paid out over a three year period at 50%, 25% and 25%. The restaurant opened in the fourth quarter of 2015 and has been paid the first of the three installments. A previous catalytic grant in the amount of \$150,000 awarded to Silent Theatre Restaurant Group, which opened in the fourth quarter of 2014, has been paid in full. In addition, \$75,387 in awarded storefront/streetscape grants has been accrued related to six projects currently under construction as of year-end. The storefront/streetscape grants are matching grants up to \$20,000 used to improve the exterior appearance and/or signage of retail properties in downtown.

Assuming the service plan is renewed in its current form, the schedule of liabilities for economic development, catalytic and DLI grants are as follows:

| Years ending December 31, | |
|------------------------------|----------------------|
| 2018 | \$ 573,487 |
| 2019 | 636,869 |
| 2020 | 818,524 |
| 2021 | 807,029 |
| 2022-Beyond | <u>10,934,939</u> |
| Total | <u>\$ 13,770,848</u> |

Service Agreements

The District entered into an interlocal agreement with METRO for operation of the Greenlink transit service. The agreement covered a four year term ending in June of 2016. METRO and the District have extended the agreement 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 2017 expenditure by the District for this service is \$1,265,924.

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 2017 expenditure by the District under the existing services agreement is \$2,722,011.

The District has entered into a number of 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, 2017

Note 10 – Lease Agreements

The District leases its operations center and warehouse. The operations center's current lease was renewed for a five year term on May 31, 2016. The operations center lease contains an early termination right which allows the landlord to terminate the lease at any time with a six-month notice. The District terminated its warehouse lease and moved to a new location in January of 2017. Lease rental expense amounted to \$90,669 for the year ended December 31, 2017. The minimum future lease payments under these lease agreements are as follows:

| Year ending December 31, | |
|-----------------------------|------------------|
| 2018 | \$ 69,000 |
| 2019 | 69,000 |
| 2020 | 69,000 |
| 2021 | <u>28,750</u> |
| Total | <u>\$235,750</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 14, 2018; 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, 2017

| | Service Plan | Capital Projects | Greenlink | Total | Budget | Variance |
|---|-------------------|---------------------|----------------|-------------------|-------------------|------------------|
| | Operations | Projects | Greenlink | Total | Budget | Variance |
| Revenues: | | | | | | |
| Assessments, net | \$ 14,003,070 | \$ 1,816,698 | \$ - | \$ 15,819,768 | \$ 13,179,287 | \$ 2,640,481 |
| Project revenue | 773,434 | 818,654 | 877,123 | 2,469,211 | 2,254,664 | 214,547 |
| Interest | 127,842 | 23,127 | 14,065 | 165,034 | 74,500 | 90,534 |
| Total revenues | 14,904,346 | 2,658,479 | 891,188 | 18,454,013 | 15,508,451 | 2,945,562 |
| Expenditures: | | | | | | |
| Downtown feels safe & comfortable at all times: | | | | | | |
| Collaboration to maintain low crime rate | 1,879,941 | - | - | 1,879,941 | 2,181,000 | 301,059 |
| Reduced presence of homeless & street persons | 425,659 | - | - | 425,659 | 518,500 | 92,841 |
| Downtown sidewalks are comfortably lighted | 387,148 | - | - | 387,148 | 327,000 | (60,148) |
| Downtown clean & well-kept appearance | 3,296,435 | - | - | 3,296,435 | 2,851,000 | (445,435) |
| Remove signs of disorder in downtown | 37,351 | - | - | 37,351 | 27,000 | (10,351) |
| Prepare for emergencies | 88,819 | - | - | 88,819 | 121,000 | 32,181 |
| | 6,115,353 | - | - | 6,115,353 | 6,025,500 | (89,853) |
| Public realm is charming, inviting, beautiful & celebrates the life of the city: | | | | | | |
| Celebrates the life of the city: | | | | | | |
| Key pedestrian streets are inviting | 386,947 | - | - | 386,947 | 415,000 | 28,053 |
| Public spaces managed, programmed, & delightful | 796,058 | - | - | 796,058 | 761,000 | (35,058) |
| Place of civic celebration | 560,901 | - | - | 560,901 | 711,500 | 150,599 |
| | 1,743,906 | - | - | 1,743,906 | 1,887,500 | 143,594 |
| Accessible to region & easy to get around: | | | | | | |
| Effective transit access more places, more hours | 10,536 | - | - | 10,536 | 11,000 | 464 |
| Convenient circulation without personal vehicle | 80,688 | - | - | 80,688 | 79,000 | (1,688) |
| Easy to find way around | 89,069 | - | - | 89,069 | 99,000 | 9,931 |
| Connect neighbors & districts inside/outside downtown | 83,973 | - | - | 83,973 | 91,500 | 7,527 |
| Convenient, understandable & managed parking | 19,080 | - | - | 19,080 | 94,000 | 74,920 |
| | 283,346 | - | - | 283,346 | 374,500 | 91,154 |
| Vibrant, sustainable mixed-use place: | | | | | | |
| Best place to work in region | 175,903 | - | - | 175,903 | 256,000 | 80,097 |
| Exciting neighborhoods to live in | 178,522 | - | - | 178,522 | 426,000 | 247,478 |
| Competitive shopping place | 83,949 | - | - | 83,949 | 53,000 | (30,949) |
| Remarkable destination for visitors | 10,433 | - | - | 10,433 | 17,000 | 6,567 |
| | 448,807 | - | - | 448,807 | 752,000 | 303,193 |
| Downtown's vision & offering understood by all: | | | | | | |
| Market to region | 849,511 | - | - | 849,511 | 1,072,500 | 222,989 |
| Promote downtown's ease of use | 21,219 | - | - | 21,219 | 21,000 | (219) |
| Vision/development framework understood by all | 1,434,520 | - | - | 1,434,520 | 1,582,500 | 147,980 |
| Tools to assist continued redevelopment | 93,443 | - | - | 93,443 | 91,000 | (2,443) |
| Develop & maintain information to support downtown | 34,304 | - | - | 34,304 | 54,000 | 19,696 |
| | 2,432,997 | - | - | 2,432,997 | 2,821,000 | 388,003 |

HOUSTON DOWNTOWN MANAGEMENT DISTRICT
Schedule of Revenues, Expenditures and Changes in Funds Balances – Budget to Actual
(Unaudited)
For the Year Ended December 31, 2017

| | Service Plan Operations | Capital Projects | Greenlink | Total | Budget | Variance |
|--|--|-----------------------------|---------------------|---------------------|-----------------------|-------------------|
| District governance & service known for excellence: | | | | | | |
| Engage stakeholders in decision making | \$ 739,362 | \$ - | \$ - | \$ 739,362 | \$ 785,284 | \$ 45,922 |
| Communications to owners, tenants & others | 14,122 | - | - | 14,122 | 20,500 | 6,378 |
| Preservation of districts' capital assets | <u>52,432</u> | <u>-</u> | <u>-</u> | <u>52,432</u> | <u>67,941</u> | <u>15,509</u> |
| | <u>805,916</u> | <u>-</u> | <u>-</u> | <u>805,916</u> | <u>873,725</u> | <u>67,809</u> |
| Capital improvement & expenditures: | | | | | | |
| Downtown feels safe & comfortable | - | - | - | - | 200,000 | 200,000 |
| Public realm is charming, inviting, & beautiful | - | 439,011 | - | 439,011 | 459,729 | 20,718 |
| Accessible to region & easy to get around | - | 679,000 | - | 679,000 | 1,205,000 | 526,000 |
| Vibrant, sustainable mixed-use place | - | 188,251 | - | 188,251 | 290,365 | 102,114 |
| Capital replacement expenditure | <u>-</u> | <u>326,438</u> | <u>-</u> | <u>326,438</u> | <u>372,121</u> | <u>45,683</u> |
| | <u>-</u> | <u>1,632,700</u> | <u>-</u> | <u>1,632,700</u> | <u>2,527,215</u> | <u>894,515</u> |
| Accessible to region and easy to get around: | | | | | | |
| Vehicle operator | - | - | 1,173,574 | 1,173,574 | 1,285,000 | 111,426 |
| Fuel | - | - | 92,350 | 92,350 | 110,700 | 18,350 |
| Marketing | - | - | 11,998 | 11,998 | 48,000 | 36,002 |
| Administrative | <u>-</u> | <u>-</u> | <u>259,936</u> | <u>259,936</u> | <u>311,736</u> | <u>51,800</u> |
| | <u>-</u> | <u>-</u> | <u>1,537,858</u> | <u>1,537,858</u> | <u>1,755,436</u> | <u>217,578</u> |
| Total expenditures | <u>11,830,325</u> | <u>1,632,700</u> | <u>1,537,858</u> | <u>15,000,883</u> | <u>17,016,876</u> | <u>2,015,993</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ 3,074,021</u> | <u>\$ 1,025,779</u> | <u>\$ (646,670)</u> | <u>\$ 3,453,130</u> | <u>\$ (1,508,425)</u> | <u>\$ 929,569</u> |

HOUSTON DOWNTOWN MANAGEMENT DISTRICT
Schedule of Revenues, Expenditures and Changes in Funds Balances – Budget to Actual
(Unaudited)
For the Year Ended December 31, 2017

Reconciliation of Differences Between Budgetary Inflows and GAAP Revenues:

| | |
|---|---------------|
| Sources/ Inflows of Resources | \$ 18,454,013 |
| 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. | 134,007 |
| Interfund transfer | 450,000 |
| Total revenue as reported on the statement of governmental fund revenues, expenditures, and changes in fund balances | \$ 19,038,020 |

Reconciliation of Differences Between Budgetary Outflows and GAAP Expenditures:

| | |
|--|---------------|
| Uses/ Outflows of Resources | \$ 15,000,883 |
| Differences - budget to GAAP: | |
| Expenditures budgeted on accrual basis rather than modified accrual basis. | 2,633 |
| Interfund transfer | 450,000 |
| Capital outlay | 89,054 |
| Depreciation expense | (293,821) |
| Total expenditure as reported on the statement of governmental fund revenues, expenditures, and changes in fund balances | \$ 15,248,749 |

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to Required Supplementary Information

(Unaudited)

For the Year Ended December 31, 2017

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 other 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.