

HOUSTON DOWNTOWN MANAGEMENT DISTRICT
Houston, Texas

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

DECEMBER 31, 2015

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, 2015, 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 entity'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 entity'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, 2015, 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.

McConell & Jones LLP

Houston, Texas

May 31, 2016

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Management's Discussion and Analysis (Unaudited)

December 31, 2015

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, 2015.

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 currently is 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 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 four year staggered 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, 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 plan (normally every 5 years) is put in place, a petition is signed by a requisite number of landowners. 2015 is the fifth year for the present service plan established by petition in the year 2010. On November 12, 2015 the District Board of Directors approved the next service plan which will be assessed based on 2015 values over the next five year period 2016-2020.

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 in promoting, developing, encouraging, and maintaining 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 a 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, 2015, there were no known claims.

Assessment Plan

Assessments for 2015 were based on the 2010 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 2015

Assessment Revenues

The District's assessment rate for 2015 was 13.5¢/\$100 in valuation based on 2010 certified Harris County Appraisal District rolls, as supplemented, within 1999 boundaries of the District. 10.65¢ was for operations and resulted in net revenues of \$6,995,719. 2.85¢ was for capital and resulted in net revenues of \$1,872,123.

Capital Projects

During 2015, capital projects focused on infill street lighting, wayfinding, engineering for the Southeast sidewalks project and a significant upgrade to the McKee Street paver storage yard. In connection with the pending improvements at Allen's Landing and the International Coffee Building, the District completed a street lighting infill project on the Fannin Street Bridge, incurring \$137,398. The upgrade to the paver storage yard included leveling, grading, re-palletizing inventory, new fencing and adding a concrete surface at a total cost of \$99,930. Additional projects in progress include design work to repair or replace a significant portion of the sidewalks in the southeast quadrant, pending receipt of a grant which has been applied for from the Houston-Galveston Area Council, work to replace, update, and add to the pedestrian wayfinding system, and approximately \$2 million authorized by the Board to refurbish the 65 existing and add one additional vehicular wayfinding signs. Amounts expended by the District during 2015 for these projects in progress were \$117,651, \$464,066 and \$1,734,997 respectively. Capital project funds in the amount of \$65,000 were used for the first phase of the Main Street Fountain refurbishment. This project will go up for bid and the work is expected to be completed in 2016.

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

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

As of December 31, 2015, the District had executed DLI agreements with seventeen developers totaling 4,976 units. The first project, SkyHouse Houston, located at 1625 Main Street opened in July of 2014. Estimated completion dates from the additional development projects range from the second quarter of 2016 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.

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, free of charge, convenient transportation through the key corridors of downtown. The District has partnered with BG Group of North America, LLC and Houston First Corporation to provide a total commitment of \$1,125,000 annually to fund operating expenses for four years. The District's portion of this annual commitment is \$375,000. The District works with its partners and the George R. Brown Convention Center to run a special service for limited nights and weekends to accommodate select conventions and expended \$40,094 during 2015 for this purpose.

A regular evening and weekend route which connects major restaurant and entertainment venues began in April of 2016. BG Group was acquired by Shell in February of 2016 and will not participate beyond their initial commitment of four years. The annual commitment for Greenlink beginning in July 2016 is \$450,000 per partner. The District is actively engaged in seeking a new Corporate Sponsor and has submitted an application with Harris County for a grant through the Texas Commission on Environmental Quality to provide additional funding. Houston First Corporation has agreed to extend its role as Public Sponsor for an additional year and METRO has agreed to extend its operating agreement, for an additional four year term ending June 30, 2020. The District has sufficient surplus fund balance to operate both routes for at least one year. If a new Corporate Sponsor or additional supplemental funding has not been identified after one year, the two remaining partners have the option of increasing their respective contributions or scaling back service hours.

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. The estimated completion date for the project is the third quarter of 2016.

The District also has programs for storefront/streetscape enhancements and catalytic retail projects. During 2015, a total of \$155,169 and \$46,500 were awarded for these grant programs respectively. In addition, a new program called the Small Business Assistance Program, was created to provide up to \$25,000 in support to small businesses showing substantial economic distress due to the extended construction period of the Dallas Street shopping district improvement project.

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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 2015, the District expended \$96,181 for paver repair work, \$111,302 for street light maintenance, \$156,992 for Main Street Square maintenance, \$434,286 for landscaping/irrigation maintenance, \$196,929 for floral displays, and \$102,781 for Market Square Park maintenance. Adjacent property owners reimbursed the District \$40,669 for Main Street Square fountain maintenance. Rent and utility reimbursements from the food vendor generated \$98,966 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 increased lamp wattage and additional street lights added. During 2015, the District accrued \$212,595 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 2015, the street clean up and trash program was funded in the amount of \$1,468,901 to provide litter and trash pick-up on a seven day a week basis, sidewalk pressure washing and a recycle program. A trash subscription program provides \$143,498 in offsetting revenues. Also in 2015, the District provided METRO bus stop cleaning services and received \$134,081 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 offering assistance to visitors, connecting homeless individuals to social services and acting as a deterrent to crime. The District increased its number of safety guides to 18 during the year and spent \$563,849 for the guide program. In addition, the District launched a new program to engage Off-Duty Houston Police Officers on a part-time basis to deploy in strategic areas. The goals of the Off-Duty Officer program are to expand the visible on-street presence of HPD in the pedestrian corridors of downtown and improve the perception of safety, to partner HPD and the HDMD Public Safety Guides to facilitate communication, understanding of respective roles, and improve incident response time, and to create a neighborhood feel within the downtown community where residents, business owners, and visitors feel safe and secure. The District spent \$181,029 for the Off-Duty Officer program over the six month trial period and staffed at a level of 5 full time positions. The District is committed to, and funded, programs to reduce homelessness, spending \$559,414 during 2015, receiving \$187,739 in grants to offset a portion of these expenses.

The District engaged in an extensive review of the Safety Guide and Street Team programs, soliciting offers from third party contractors through a formal RFP process during 2015. The Public Safety and Maintenance Committees of the Board participated in the review and, after thorough examination of the

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options, selected Block by Block as the outsource vendor for both Safety Guide and Street Team programs. Block by Block began work under their new contract on January 1, 2016. New uniforms and new equipment branded with the District logo were part of the "refresh" and the Safety Guide personnel will be increased to a level of 26 Guides.

Operations Center

The District leases office space at 1119 Milam for operations staff, contractor street/safety guide teams, emergency operations center and for storage of equipment. It leases additional warehouse storage space for material storage. Annual rent and utilities for office and warehouse space totaled \$143,720. The District's lease of the office space at 1119 Milam is up for renewal in May of 2016. While the District may exercise another five-year option, the landlord has the right to terminate with twelve-month notice. The District has received indications from its landlord that the operations center will be able to remain in its location for the near term. Discussions regarding the lease are ongoing.

Banner and Holiday Decorations

The District provides street banners and holiday decorations for downtown. During 2015, \$153,401 was spent on banner and holiday decorations.

Marketing and Communications Program

In 2015, the District engaged an advertising agency to assist with new strategy to promote downtown through an updated branding campaign. The overall objective of the campaign is to develop programs to stimulate spending in downtown hotels, restaurants, bars and retail shops through recognition of all the changes taking place in the downtown environment, called "Something Big is Up". The District continues to publish the *downtown* magazine and weekly e-blasts to communicate a variety of events happening in downtown. Total expenditures for marketing and communications were \$688,401 in 2015, with revenues for the *downtown* magazine advertising and participants totaling approximately \$59,201. In addition, following up on recommendations from the Mayor's retail task force, the District engaged a consultant to supplement internal resources and \$102,282 was spent to support the retail initiatives and a web-based tool to facilitate parking was developed and launched at a cost of \$39,480.

The District also launched a new initiative, Art Blocks, to bring unique large-scale public art to the three blocks of Main Street Square. The pieces were selected by a committee of local collectors, curators, and philanthropists and will consist of four major pieces to be installed in the spring of 2016 and remain up for one year. The District has committed \$700,000 to the Art Blocks program and incurred expenditures of \$211,716 during 2015.

Business and 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 \$204,064 on its business development program during 2015, which is conducted in partnership with Central Houston, Inc.

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Planning

The planning efforts of the District were concentrated in two key areas during the current year: comprehensive planning for the Warehouse District to provide a framework for bringing new development to the neighborhood and infrastructure planning for the reconstruction of the I-45/I-10 freeway connections around downtown. A total of \$344,945 was spent on planning efforts during 2015.

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 \$118,099 during 2015 on programming in Market Square Park and draws visitors not only to the park itself but to the surrounding businesses in the Historic District.

Beginning in 2016, the District will expand its regular programming to Main Street Square.

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 assets 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 assets 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.

The following table reflects condensed information on the District's net positions as of December 31, 2015 and 2014:

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Management's Discussion and Analysis (Unaudited)

December 31, 2015

| | <u>2015</u> | <u>2014</u> |
|---|-------------------------|-------------------------|
| Capital assets, net | \$ 2,197,625 | \$ 2,490,991 |
| Other assets: | | |
| Cash and cash equivalents | 7,656,001 | 8,849,738 |
| Assessments, net | 12,602,703 | 7,830,363 |
| Accounts receivable and prepaid expenses | 208,013 | 298,200 |
| Inventory | <u>104,564</u> | <u>104,564</u> |
| Total assets | <u>22,768,906</u> | <u>19,573,856</u> |
| Total liabilities | <u>2,359,813</u> | <u>1,281,837</u> |
| Deferred inflows of resources | <u>13,324,228</u> | <u>8,932,992</u> |
| Net position: | | |
| Invested in capital assets, net of related debt | 2,197,625 | 2,490,991 |
| Restricted for capital projects | 2,695,005 | 3,565,413 |
| Unrestricted | <u>2,192,237</u> | <u>3,302,623</u> |
| Total net position | <u>\$ 7,084,867</u> | <u>\$ 9,359,027</u> |

Assets

As of December 31, 2015, the District's assets totaled \$22,768,906 versus \$19,573,856 as of December 31, 2014. At year-end, the District had \$3,704,940 of cash on hand for service plan operations, \$2,459,255 for capital projects and \$1,491,806 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 \$2,197,625 as of December 31, 2015, which reflects \$293,364 of depreciation expense from the net capital asset balance of \$2,490,991 as of December 31, 2014. Assessment receivable as of December 31, 2015 totaled approximately \$12,602,703 versus \$7,830,363 as of December 31, 2014. The increase in the assessment receivable is due to properties being revalued based on 2015 values under the new five year service plan.

Liabilities and Deferred Inflow of Resources

At December 31, 2015, the District's liabilities and deferred inflow of resources totaled \$15,684,041 versus \$10,214,829 as of December 31, 2014. The liabilities are primarily accounts payable, accrued expenses and deferred inflows of resources related to assessments. During 2015, the District had a balance of accounts payable and accrued expenses in the amount of \$2,359,813 and unearned sponsorship revenue of \$187,500 related to the Greenlink circulator program. Unearned assessments related to 2016 assessments as of December 31, 2015 totaled \$13,136,728 versus \$8,745,492 as of the end of 2014. The increase in deferred inflows of resources is related to the significant increase in the assessment receivable less the reserve, as a result of the new five year service plan under which properties were assessed based on the 2015 property values.

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Net Positions/Fund Balances

Net positions at year-end 2015 totaled \$7,084,867 versus \$9,359,027 in 2014. Net position in 2015 is classified as invested in capital assets, restricted for capital projects, and unrestricted, which totaled \$2,197,625, \$2,695,005 and \$2,192,237, respectively. In 2014, net position invested in capital assets, restricted for capital projects, and unrestricted totaled \$2,490,991, \$3,565,413, and \$3,302,623, respectively.

In 2015, net position for the District decreased by \$2,274,160 from 2014.

Statement of Activities

The following statement of activities identifies operating revenues earned and expenses incurred by the District during the fiscal year ended December 31, 2015:

| Revenues: | 2015 | 2014 |
|--|----------------------|----------------------|
| Assessments, net - service plan operations | \$ 6,995,719 | \$ 7,023,370 |
| Assessments, net - capital projects | 1,872,123 | 1,879,621 |
| Greenlink sponsor revenues | 750,000 | 750,000 |
| Other | 692,349 | 1,079,996 |
| Total | <u>\$ 10,310,191</u> | <u>\$ 10,732,987</u> |

In 2015, revenues totaled \$10,310,191 compared to \$10,732,987 in 2014. Assessment revenue decreased by \$35,149 to reflect refunds issued from prior year protests. In 2014, the District received a grant in the amount of \$250,000 from the City of Houston to support the homeless transition plan at the Beacon, which was discontinued for 2015. Operations revenue has decreased by \$9,674 and marketing partnership revenue by \$56,066. Salary reimbursements decreased by \$79,033 due to changes in personnel allocations and interest income increased by \$6,294 due to a slight increase in interest earnings rates on investments.

| Expenditures: | 2015 | 2014 |
|-------------------------|----------------------|----------------------|
| Service plan operations | \$ 8,421,348 | \$ 7,577,732 |
| Capital projects | 3,008,014 | 1,857,351 |
| Greenlink expenditures | 1,154,989 | 1,113,633 |
| Total | <u>\$ 12,584,351</u> | <u>\$ 10,548,716</u> |

In 2015, expenditures totaled \$12,584,351 compared to \$10,548,716 in 2014. The total increase over 2014 of \$2,035,635 was primarily due to increased budgets for the following programs: \$250,000 in safety personnel, \$178,000 in the Art Blocks program, and \$1.6 million in vehicular and pedestrian wayfinding signage.

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Management's Discussion and Analysis (Unaudited)

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Budgetary Highlights

Service plan operations

| | 2015 | | 2014 | |
|---|---------------------|-----------------------|---------------------|---------------------|
| | Actual | Budget | Actual | Budget |
| Revenues: | <u>\$ 7,682,294</u> | <u>\$ 7,982,225</u> | <u>\$ 8,100,582</u> | <u>\$ 7,771,550</u> |
| Expenditures: | | | | |
| Downtown feels safe and comfortable | 4,264,866 | 4,302,650 | 3,856,796 | 3,696,500 |
| Public realm is charming, inviting, beautiful | 1,030,473 | 1,654,000 | 982,922 | 1,073,200 |
| Accessible to region and easy to get around | 286,334 | 323,000 | 349,723 | 412,000 |
| Vibrant, sustainable mixed-use place | 450,805 | 610,200 | 537,975 | 644,000 |
| Downtown's vision understood by all | 1,519,977 | 1,507,100 | 1,056,730 | 1,403,500 |
| District governance known for excellence | <u>868,893</u> | <u>887,913</u> | <u>793,586</u> | <u>852,823</u> |
| Total expenditures | <u>8,421,348</u> | <u>9,284,863</u> | <u>7,577,732</u> | <u>8,082,023</u> |
| Revenues in excess (deficit) of expenditures | <u>\$ (739,054)</u> | <u>\$ (1,302,638)</u> | <u>\$ 522,850</u> | <u>\$ (310,473)</u> |

- Overall 2015 service plan operations revenues were behind budget by \$299,931, primarily attributable to the Beacon grant which was budgeted but not received. Assessment revenue was \$27,583 below budget due to refunds of prior year assessments after settlement of protests.
- Service plan operations expenditures for 2015 were less than budget by \$863,515. Personnel costs were under budget by \$57,299 due to open positions, operations expenditures for homelessness programs were under budget by \$133,586 due to the reduction in expenditures funded by the Beacon grant, maintenance expenditures were under budget by \$171,809, marketing by \$446,477, business development by \$26,909, planning and design by \$23,917 and administrative expenses were over budget by \$30,136 due to additional expenses associated with preparing for the new service plan.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

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Capital projects

| | 2015 | | 2014 | |
|---|-----------------------|-----------------------|------------------|-----------------------|
| | Actual | Budget | Actual | Budget |
| Revenues: | \$ 1,876,476 | \$ 2,356,582 | \$ 1,881,816 | \$ 2,351,856 |
| Expenditures: | | | | |
| Downtown feels safe and comfortable | 137,398 | 120,000 | 608,245 | 1,350,000 |
| Public realm is charming, inviting, beautiful | 155,169 | 915,000 | 183,560 | 1,075,000 |
| Accessible to region and easy to get around | 2,381,714 | 2,720,000 | 574,629 | 1,655,000 |
| Vibrant, sustainable mixed-use place | 46,501 | 783,000 | 300,000 | 325,000 |
| Downtown's vision understood by all | - | - | 4,625 | - |
| District governance known for excellence | 287,232 | 245,000 | 186,292 | 225,000 |
| Total expenditures | 3,008,014 | 4,783,000 | 1,857,351 | 4,630,000 |
| Revenues in excess (deficit) of expenditures | <u>\$ (1,131,538)</u> | <u>\$ (2,426,418)</u> | <u>\$ 24,465</u> | <u>\$ (2,278,144)</u> |

- Revenues for 2015 were \$480,106 less than budget because the budget was prepared assuming the International Coffee Building would begin construction during 2015 and the corresponding grant funds of \$475,000 would be received. This project did begin construction, but as of the end of the year no grant funding has been received. Assessment revenue was \$7,382 below budget due to refunds of prior year assessments after settlement of protests.
- Expenditures for 2015 were \$1,774,986 less than budget due to delayed projects related to the International Coffee Building of \$475,000 and unspent funds of \$125,000 for new banners, \$840,000 in retail grants, and \$335,000 for the Main Street Square fountain refurbishment. The fountain and banner projects will be moved to 2016. A portion of the retail grant budget was reallocated to the pedestrian wayfinding in the amount of \$300,000 and a new program was created to assist with small businesses that have been severely impacted by the Dallas Street construction in the amount of \$125,000.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Management's Discussion and Analysis (Unaudited)

December 31, 2015

Greenlink

| | 2015 | | 2014 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Actual | Budget | Actual | Budget |
| Revenues: | <u>\$ 751,421</u> | <u>\$ 750,600</u> | <u>\$ 750,589</u> | <u>\$ 750,800</u> |
| Expenditures: | | | | |
| Vehicle operator expense | 763,500 | 912,000 | 776,135 | 840,000 |
| Fuel expense | 71,836 | 82,500 | 70,215 | 84,000 |
| Marketing expense | 14,994 | 60,000 | 23,912 | 25,000 |
| Operating administrative expense | 54,723 | 60,000 | (6,565) | 60,000 |
| Depreciation expense | <u>249,936</u> | <u>249,936</u> | <u>249,936</u> | <u>249,936</u> |
| Total expenditures | <u>1,154,989</u> | <u>1,364,436</u> | <u>1,113,633</u> | <u>1,258,936</u> |
| Revenues in excess (deficit) of expenditures | <u>\$ (403,568)</u> | <u>\$ (613,836)</u> | <u>\$ (363,044)</u> | <u>\$ (508,136)</u> |

- Expenditures for 2015 were \$209,447 less than budget. This is primarily due to less than expected operator expenses of \$148,500, savings in fuel of \$10,664, and savings in marketing and administration of \$50,283. The Greenlink funding partners agreed to utilize a portion of the operating savings to run the special convention route for select conventions at the George R. Brown, at a cost in 2015 of \$40,094. During the year, the District added a bus at the peak lunchtime hours to alleviate crowding. Beginning in 2016 a new night/weekend route will be added to provide service on Thursday, Friday, Saturday and Sunday.

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, 2015

| | Service Plan Operations | Capital Projects | Greenlink | Total | Adjustments | Statement of Net Position | |
|---|-------------------------------|---------------------|---------------------|----------------------|---------------------|---------------------------------|-----------|
| <u>Assets</u> | | | | | | | |
| Cash and cash equivalents | \$ 3,704,940 | \$ 2,459,255 | \$ 1,491,806 | \$ 7,656,001 | \$ - | \$ 7,656,001 | |
| Accounts receivable | 140,013 | - | - | 140,013 | - | 140,013 | |
| Prepaid expenses | 68,000 | - | - | 68,000 | - | 68,000 | |
| Assessment due from tax collector, less allowance for delinquent accounts | 11,184,899 | 1,417,804 | - | 12,602,703 | - | 12,602,703 | |
| Inventory | - | - | 104,564 | 104,564 | - | 104,564 | |
| Interfund receivable (payable) | (57,309) | 57,309 | - | - | - | - | |
| Capital assets, net | - | - | - | - | 2,197,625 | 2,197,625 | |
| Total assets | <u>\$ 15,040,543</u> | <u>\$ 3,934,368</u> | <u>\$ 1,596,370</u> | <u>\$ 20,571,281</u> | <u>\$ 2,197,625</u> | <u>\$ 22,768,906</u> | |
| <u>Liabilities</u> | | | | | | | |
| Accounts payable and accrued expenses | \$ 783,454 | \$ 996,129 | \$ 69,658 | \$ 1,849,241 | \$ - | \$ 1,849,241 | |
| Due to affiliate | 426,609 | - | - | 426,609 | 83,961 | 510,570 | |
| Total liabilities | <u>1,210,063</u> | <u>996,129</u> | <u>69,658</u> | <u>2,275,850</u> | <u>83,961</u> | <u>2,359,811</u> | |
| <u>Deferred Inflows of Resources</u> | | | | | | | |
| Unearned assessments | 11,658,846 | 1,477,882 | - | 13,136,728 | - | 13,136,728 | |
| Unearned sponsorship payments | - | - | 187,500 | 187,500 | - | 187,500 | |
| <u>Fund Balances</u> | | | | | | | |
| Fund balances: | | | | | | | |
| Nonspendable-inventories and prepayments | 68,000 | - | 104,564 | 172,564 | (172,564) | | |
| Restricted for capital projects | - | 1,460,357 | 1,234,648 | 2,695,005 | (2,695,005) | | |
| Assigned for catastrophe | 800,000 | - | - | 800,000 | (800,000) | | |
| Unassigned | 1,303,634 | - | - | 1,303,634 | (1,303,634) | | |
| Total fund balances | <u>2,171,634</u> | <u>1,460,357</u> | <u>1,339,212</u> | <u>4,971,203</u> | <u>(4,971,203)</u> | | |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 15,040,543</u> | <u>\$ 3,934,368</u> | <u>\$ 1,596,370</u> | <u>\$ 20,571,281</u> | | | |
| Net position: | | | | | | | |
| Invested in capital assets, net of related debt | | | | | 2,197,625 | 2,197,625 | |
| Restricted for capital projects | | | | | 2,695,005 | 2,695,005 | |
| Unrestricted | | | | | 2,192,237 | 2,192,237 | |
| Total net position | | | | | <u>\$ 7,084,867</u> | <u>\$ 7,084,867</u> | |
| Total fund balances of total governmental funds | | | | | | \$ 4,971,203 | |
| 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 | | | | | | | 2,197,625 |
| Compensated absences | | | | | | | (83,961) |
| Net position of governmental activities | | | | | | <u>\$ 7,084,867</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
For the Year Ended December 31, 2015

| | Service Plan Operations | Capital Projects | Greenlink | Total | Adjustments | Statement of Activities |
|---|-------------------------------|---------------------|------------------|-------------------|------------------|-------------------------------|
| Revenues: | | | | | | |
| Assessments, net | \$ 7,103,903 | \$ 1,901,075 | \$ - | \$ 9,004,978 | \$ (137,136) | \$ 8,867,842 |
| Project revenue | 678,905 | - | 1,125,000 | 1,803,905 | (375,000) | 1,428,905 |
| Interest | 7,670 | 4,353 | 1,421 | 13,444 | - | 13,444 |
| Total revenues | 7,790,478 | 1,905,428 | 1,126,421 | 10,822,327 | (512,136) | 10,310,191 |
| Expenditures: | | | | | | |
| Downtown feels safe & comfortable at all times: | | | | | | |
| Collaboration to maintain low crime rate | 832,612 | - | - | 832,612 | - | 832,612 |
| Reduced presence of homeless & street persons | 651,814 | - | - | 651,814 | - | 651,814 |
| Downtown sidewalks are comfortably lighted | 368,193 | - | - | 368,193 | - | 368,193 |
| Downtown clean & well-kept appearance | 2,340,123 | - | - | 2,340,123 | - | 2,340,123 |
| Remove signs of disorder in downtown | 1,005 | - | - | 1,005 | - | 1,005 |
| Prepare for emergencies | 71,119 | - | - | 71,119 | - | 71,119 |
| | 4,264,866 | - | - | 4,264,866 | - | 4,264,866 |
| Public realm is charming, inviting, beautiful & Celebrates the life of the city: | | | | | | |
| Key pedestrian streets are inviting | 259,238 | - | - | 259,238 | - | 259,238 |
| Public spaces managed, programmed, & delightful | 299,848 | - | - | 299,848 | - | 299,848 |
| Place of civic celebration | 471,387 | - | - | 471,387 | - | 471,387 |
| | 1,030,473 | - | - | 1,030,473 | - | 1,030,473 |
| Accessible to region & easy to get around: | | | | | | |
| Effective transit access more places, more hours | 9,844 | - | - | 9,844 | - | 9,844 |
| Convenient circulation without personal vehicle | 465,981 | - | - | 465,981 | (375,000) | 90,981 |
| Easy to find way around | 43,277 | - | - | 43,277 | - | 43,277 |
| Connect neighbors & districts inside/outside downtown | 68,184 | - | - | 68,184 | - | 68,184 |
| Convenient, understandable & managed parking | 74,048 | - | - | 74,048 | - | 74,048 |
| | 661,334 | - | - | 661,334 | (375,000) | 286,334 |
| Vibrant, sustainable mixed-use place: | | | | | | |
| Best place to work in region | 204,060 | - | - | 204,060 | - | 204,060 |
| Exciting neighborhoods to live in | 85,413 | - | - | 85,413 | - | 85,413 |
| Competitive shopping place | 157,393 | - | - | 157,393 | - | 157,393 |
| Remarkable destination for visitors | 3,939 | - | - | 3,939 | - | 3,939 |
| | 450,805 | - | - | 450,805 | - | 450,805 |
| Downtown's vision & offering understood by all: | | | | | | |
| Market to region | 938,379 | - | - | 938,379 | - | 938,379 |
| Promote downtown's ease of use | 20,847 | - | - | 20,847 | - | 20,847 |
| Vision/development framework understood by all | 457,128 | - | - | 457,128 | - | 457,128 |
| Tools to assist continued redevelopment | 73,585 | - | - | 73,585 | - | 73,585 |
| Develop & maintain information to support downtown | 30,038 | - | - | 30,038 | - | 30,038 |
| | 1,519,977 | - | - | 1,519,977 | - | 1,519,977 |

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
For the Year Ended December 31, 2015

| | Service Plan Operations | Capital Projects | Greenlink | Total | Adjustments | Statement of Activities |
|--|-------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------------------|
| District governance & service known for excellence: | | | | | | |
| Engage stakeholders in decision making | 775,744 | - | - | 775,744 | 12,829 | 788,573 |
| Communications to owners, tenants & others | 17,387 | - | - | 17,387 | - | 17,387 |
| Preservation of districts' capital assets | 30,315 | - | - | 30,315 | 32,618 | 62,933 |
| | <u>823,446</u> | <u>-</u> | <u>-</u> | <u>823,446</u> | <u>45,447</u> | <u>868,893</u> |
| Capital improvement & expenditures: | | | | | | |
| Downtown feels safe & comfortable | - | 137,398 | - | 137,398 | - | 137,398 |
| Public realm is charming, inviting, & beautiful | - | 155,169 | - | 155,169 | - | 155,169 |
| Accessible to region & easy to get around | - | 2,381,714 | - | 2,381,714 | - | 2,381,714 |
| Vibrant, sustainable mixed-use place | - | 46,501 | - | 46,501 | - | 46,501 |
| Capital replacement expenditure | - | 276,422 | - | 276,422 | 10,810 | 287,232 |
| | <u>-</u> | <u>2,997,204</u> | <u>-</u> | <u>2,997,204</u> | <u>10,810</u> | <u>3,008,014</u> |
| Accessible to region and easy to get around: | | | | | | |
| Vehicle operator | - | - | 763,500 | 763,500 | - | 763,500 |
| Fuel | - | - | 71,836 | 71,836 | - | 71,836 |
| Marketing | - | - | 14,994 | 14,994 | - | 14,994 |
| Administrative | - | - | 54,723 | 54,723 | 249,936 | 304,659 |
| | <u>-</u> | <u>-</u> | <u>905,053</u> | <u>905,053</u> | <u>249,936</u> | <u>1,154,989</u> |
| Total expenditures | <u>8,750,901</u> | <u>2,997,204</u> | <u>905,053</u> | <u>12,653,158</u> | <u>(68,807)</u> | <u>12,584,351</u> |
| Excess (deficiency) of revenues over expenditures | (960,423) | (1,091,776) | 221,368 | (1,830,831) | 1,830,831 | |
| Change in net position | | | | | (2,274,160) | (2,274,160) |
| Fund balances/net position: | | | | | | |
| Beginning of year | 3,132,057 | 2,552,133 | 1,117,844 | 6,802,034 | 2,556,993 | 9,359,027 |
| End of year | <u>\$ 2,171,634</u> | <u>\$ 1,460,357</u> | <u>\$ 1,339,212</u> | <u>\$ 4,971,203</u> | <u>\$ 2,113,664</u> | <u>\$ 7,084,867</u> |
| Net change in total fund balance of governmental funds | | | | | | \$ (1,830,831) |
| 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: | | | | | | |
| Depreciation expense | | | | | | (293,364) |
| 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 | | | | | | |
| | | | | | | (12,829) |
| Assessment revenue reported as deferred inflows in the fund financial statements but is recognized as revenues in governmental funds financial statements | | | | | | |
| | | | | | | (137,136) |
| Change in net position of statement of activities | | | | | | <u>\$ (2,274,160)</u> |

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

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

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 with 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 were under a five year service plan (2011 - 2015) 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, 2015

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 10.65 cents per \$100 valuation of taxable real property according to the 2010 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 2.85 cents per \$100 valuation of taxable real property according to the 2010 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, 2015

Special Assessment

The District's assessment was levied on November 11, 2010 for a five year period on the basis of assessed values as of January 1, 2010 for all real property located in the District. These assessments are due in five equal annual installments by January 31 of the years 2011 through 2015 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 2015 was 13.5 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 for the Board of Directors with the monthly financial statements.

In addition to annual 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 by a trustee in public funds investment pools.

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.

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

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

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.

New Accounting Pronouncements

Government Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

The objective of this statement is to define fair value and describe how fair value should be measured, what assets and liabilities should be measured at fair value and what information about fair value should be disclosed in the notes to the financial statements. This Statement is designed to bring more clarity to areas of uncertainty – including direction on how to apply fair value when market values cannot be obtained and where management judgments are necessary. Effective for the District’s calendar year 2016, impact of this Statement will be evaluated by management upon adoption.

Government Accounting Standards Board Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Effective for the District’s calendar year 2016, impact of this Statement will be evaluated by management upon adoption.

Government Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*.

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. Effective for the District’s calendar year 2016, impact of this Statement will be evaluated by management upon adoption.

Government Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. Effective for the District’s calendar year 2016, impact of this Statement will be evaluated by management upon adoption.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

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. 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.

Note 3 – 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, 2015, the Service Plan Operations fund owed the Capital Projects fund \$57,309.

Note 4 – Deposits and Investments

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.

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

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

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.

As of December 31, 2015, the District held \$7,040,971 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.

Note 5 – Assessments Due From Tax Assessor/Collector

Assessments due from tax assessor/collector as of December 31, 2015 are summarized as follows:

| | <u>Service Plan Operations</u> | <u>Capital Projects</u> | <u>Total</u> |
|---|------------------------------------|-------------------------|----------------------|
| Assessments due from tax assessor/collector | \$ 12,850,448 | \$ 1,628,930 | \$ 14,479,378 |
| Less allowance for delinquent accounts | <u>(1,665,549)</u> | <u>(211,126)</u> | <u>(1,876,675)</u> |
| | <u>\$ 11,184,899</u> | <u>\$ 1,417,804</u> | <u>\$ 12,602,703</u> |

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 12.5% of the amount assessed and has been increased to account for the high number of properties in litigation which are currently protesting property tax valuations. The District reviews its allowance annually.

Note 6 – Restricted for Capital Projects

At December 31, 2015, the District has restricted net position of \$2,695,005 for capital projects. Such funds are restricted for the District's capital projects including street lighting, streetscape improvements, retail and catalyst project grants, wayfinding signage and the Greenlink.

Note 7 – 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 \$2,599,172 in 2015. As of December 31, 2015, the District had a due to affiliate of \$191,929.

In addition, the District paid \$204,064 in 2015 to Central Houston Civic Improvement, Inc. for its business development program. Such amounts are included in expenditures in the accompanying financial statements.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

The District received \$70,778 in 2015 from the Downtown Redevelopment Authority (DRA) for work performed by the District for DRA projects.

Note 8 – 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 estimated completion date for the project is the third quarter of 2016.

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 is June 30, 2016.

As of December 31, 2015, the District had executed DLI agreements with seventeen developers totaling 4,976 units. The first project, Skyhouse Houston, located at 1625 Main Street opened in July of 2014. Estimated completion dates from the additional development projects range from the second quarter of 2016 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 the liability has been accrued for this project in the financial statements. A previous catalytic grant in the amount of \$117,000 awarded to 71SeventyThree, LLC DBA Batanga, which opened in the first quarter of 2013, has been paid in full; and a previous catalytic grant in the amount of \$300,000 awarded to Silent Theatre Restaurant Group, which opened in the fourth quarter of 2014, has received the first of its three payments. In addition, \$101,835 in awarded storefront/streetscape grants has been accrued related to eight 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.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

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, | |
|------------------------------|----------------------|
| 2016 | \$ 262,676 |
| 2017 | 584,373 |
| 2018 | 656,148 |
| 2019 | 792,932 |
| 2020 | 1,010,307 |
| 2021-Beyond | <u>11,138,794</u> |
| Total | <u>\$ 14,445,230</u> |

Service Agreements

The District entered into an interlocal agreement with METRO for operation of the Greenlink transit service. The agreement covers 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 2015 expenditure by the District for this service is \$899,260.

The District entered into an agreement with ABM Janitorial Services – South Central, Inc. to provide personnel, equipment and supplies for cleaning and maintenance services for the District. The agreement covered a five year term ending on December 31, 2015 and was not renewed. The District solicited proposals and selected a new provider, Block by Block, for services related to the District’s clean and safe programs beginning on January 1, 2016. The 2015 expenditure by the District under the existing services agreement is \$1,271,961.

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

Vehicular Wayfinding Refurbishment

In August of 2014, the District entered into a contract with NEC Signage + Architectural Products to refurbish 65 and add one additional vehicle wayfinding signage in the downtown area. The vehicle wayfinding signs were to be de-installed, repainted, receive updated messaging, and re-installed over a period of September 2014 through January 2016. The total value of the NEC refurbishment contract was \$1,997,137, and while the project is substantially complete, punch list work is ongoing.

Pedestrian Wayfinding Signage

In June of 2015, the District entered into a contract with Intex United to fabricate and install 95 new pedestrian wayfinding signs over a period from July 2015 through June 2016. The total value of the Intex United contract is \$699,896.

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

Note 9 – 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 2015 is as follows:

| | January 1 | Additions | Retirements | December 31 |
|----------------------------------|---------------------|---------------------|-------------|---------------------|
| Banners and banner arms | \$ 530,640 | \$ - | \$ - | \$ 530,640 |
| Computer software | 27,353 | - | - | 27,353 |
| Forklift | 5,500 | - | - | 5,500 |
| Golf carts - street team | 58,523 | - | - | 58,523 |
| Holiday decorations | 224,576 | - | - | 224,576 |
| Operations center LHI build-out | 124,629 | - | - | 124,629 |
| Power lift and generators | 84,170 | - | - | 84,170 |
| Street sweeper | 20,749 | - | - | 20,749 |
| Safety guide PDA & printers | 72,289 | - | - | 72,289 |
| Emergency surveillance equipment | 10,000 | - | - | 10,000 |
| Trolley map stands | 20,775 | - | - | 20,775 |
| Greenlink buses | 2,999,269 | - | - | 2,999,269 |
| Total | 4,178,473 | - | - | 4,178,473 |
| Less: accumulated depreciation | (1,687,484) | (293,364) | - | (1,980,848) |
| Capital assets, net | <u>\$ 2,490,989</u> | <u>\$ (293,364)</u> | <u>\$ -</u> | <u>\$ 2,197,625</u> |

Note 10 – Lease Agreements

The District leases its operations center and warehouse. The operations center's current lease expires on May 31, 2016, with an option for one additional five-year term. The operations center lease contains an early termination right which allows the landlord to terminate the lease at any time with a twelve-month notice. The warehouse lease expired on December 31, 2013 and the District is currently on a month-to-month arrangement. Lease rental expense amounted to \$83,880 for the year ended December 31, 2015. The minimum future lease payments under these lease agreements are as follows:

| Year ending | |
|--------------|------------------|
| December 31, | |
| 2016 | <u>\$ 28,000</u> |
| Total | <u>\$ 28,000</u> |

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to the Financial Statements

December 31, 2015

Note 11 – 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 expiring in March 2020. The restaurant will pay the District 6% of the first \$300,000 in gross sales and 10% of gross sales in excess of \$300,000 plus a reimbursement of utilities. After the District exercised its right to renew, operating fees were amended as follows: beginning on September 15, 2015, 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, 2015, total revenue from the Market Square Park kiosk was \$93,966 and it is included in Project Revenue.

Note 12 – 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 13 – Subsequent Events

Management has evaluated subsequent events through May 31, 2016; 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, 2015

| | Service Plan Operations | Capital Projects | Greenlink | Actual (Budgetary Basis) | Final Budget | Variance with Final Budget Positive (Negative) |
|---|-------------------------------|---------------------|----------------|--------------------------------|-------------------|--|
| Revenues: | | | | | | |
| Assessments, net | \$ 6,995,719 | \$ 1,872,123 | \$ - | \$ 8,867,842 | \$ 8,902,807 | \$ (34,965) |
| Project revenue | 678,905 | - | 750,000 | 1,428,905 | 2,179,000 | (750,095) |
| Interest | 7,670 | 4,353 | 1,421 | 13,444 | 7,600 | 5,844 |
| Total revenues | 7,682,294 | 1,876,476 | 751,421 | 10,310,191 | 11,089,407 | (779,216) |
| Expenditures: | | | | | | |
| Downtown feels safe & comfortable at all times: | | | | | | |
| Collaboration to maintain low crime rate | 832,612 | - | - | 832,612 | 682,350 | (150,262) |
| Reduced presence of homeless and street persons | 651,814 | - | - | 651,814 | 782,000 | 130,186 |
| Downtown sidewalks are comfortably lighted | 368,193 | - | - | 368,193 | 337,500 | (30,693) |
| Downtown clean & well-kept appearance | 2,340,123 | - | - | 2,340,123 | 2,412,300 | 72,177 |
| Remove signs of disorder in downtown | 1,005 | - | - | 1,005 | 5,500 | 4,495 |
| Prepare for emergencies | 71,119 | - | - | 71,119 | 80,500 | 9,381 |
| | <u>4,264,866</u> | <u>-</u> | <u>-</u> | <u>4,264,866</u> | <u>4,300,150</u> | <u>35,284</u> |
| Public realm is charming, inviting, beautiful and Celebrates the life of the city: | | | | | | |
| Key pedestrian streets are inviting | 259,238 | - | - | 259,238 | 292,500 | 33,262 |
| Public spaces managed, programmed, and delightful | 299,848 | - | - | 299,848 | 403,000 | 103,152 |
| Place of civic celebration | 471,387 | - | - | 471,387 | 958,500 | 487,113 |
| | <u>1,030,473</u> | <u>-</u> | <u>-</u> | <u>1,030,473</u> | <u>1,654,000</u> | <u>623,527</u> |
| Accessible to region & easy to get around: | | | | | | |
| Effective transit access more places, more hours | 9,844 | - | - | 9,844 | 10,000 | 156 |
| Convenient circulation without personal | 90,981 | - | - | 90,981 | 97,500 | 6,519 |
| Easy to find way around | 43,277 | - | - | 43,277 | 62,000 | 18,723 |
| Connect neighbors & districts inside/outside | 68,184 | - | - | 68,184 | 73,000 | 4,816 |
| Convenient, understandable & managed parking | 74,048 | - | - | 74,048 | 80,500 | 6,452 |
| | <u>286,334</u> | <u>-</u> | <u>-</u> | <u>286,334</u> | <u>323,000</u> | <u>36,666</u> |
| Vibrant, sustainable mixed-use place: | | | | | | |
| Best place to work in region | 204,060 | - | - | 204,060 | 228,700 | 24,640 |
| Exciting neighborhoods to live in | 85,413 | - | - | 85,413 | 89,500 | 4,087 |
| Competitive shopping place | 157,393 | - | - | 157,393 | 289,500 | 132,107 |
| Remarkable destination for visitors | 3,939 | - | - | 3,939 | 2,500 | (1,439) |
| | <u>450,805</u> | <u>-</u> | <u>-</u> | <u>450,805</u> | <u>610,200</u> | <u>159,395</u> |
| Downtown's vision & offering understood by all: | | | | | | |
| Market to region | 938,379 | - | - | 938,379 | 904,000 | (34,379) |
| Promote downtown's ease of use | 20,847 | - | - | 20,847 | 20,000 | (847) |
| Vision/development framework understood by all | 457,128 | - | - | 457,128 | 470,500 | 13,372 |
| Tools to assist continued redevelopment | 73,585 | - | - | 73,585 | 83,000 | 9,415 |
| Develop & maintain information to support downtown | 30,038 | - | - | 30,038 | 29,600 | (438) |
| | <u>1,519,977</u> | <u>-</u> | <u>-</u> | <u>1,519,977</u> | <u>1,507,100</u> | <u>(12,877)</u> |

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

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

For the Year Ended December 31, 2015

| | Service Plan Operations | Capital Projects | Greenlink | Actual (Budgetary Basis) | Final Budget | Variance with Final Budget Positive (Negative) |
|---|-------------------------------|-----------------------|---------------------|--------------------------------|-----------------------|--|
| District governance and service known for excellence: | | | | | | |
| Engage stakeholders in decision making others | 788,573 | - | - | 788,573 | 772,037 | (16,536) |
| Preservation of districts' capital assets | 17,387 | - | - | 17,387 | 16,000 | (1,387) |
| | 62,933 | - | - | 62,933 | 91,060 | 28,127 |
| | <u>868,893</u> | <u>-</u> | <u>-</u> | <u>868,893</u> | <u>879,097</u> | <u>10,204</u> |
| Capital improvement & expenditures: | | | | | | |
| Downtown feels safe & comfortable | - | 137,398 | - | 137,398 | 120,000 | (17,398) |
| Public realm is charming, inviting, & Accessible to region & easy to get around | - | 155,169 | - | 155,169 | 915,000 | 759,831 |
| Vibrant, sustainable mixed-use place | - | 2,381,714 | - | 2,381,714 | 2,720,000 | 338,286 |
| Downtown's vision & offering understood by all | - | 46,501 | - | 46,501 | 783,000 | 736,499 |
| Capital replacement expenditure | - | 287,232 | - | 287,232 | 256,316 | (30,916) |
| | <u>-</u> | <u>3,008,014</u> | <u>-</u> | <u>3,008,014</u> | <u>4,794,316</u> | <u>1,786,302</u> |
| Accessible to region and easy to get around: | | | | | | |
| Vehicle operator | - | - | 763,500 | 763,500 | 912,000 | 148,500 |
| Fuel | - | - | 71,836 | 71,836 | 82,500 | 10,664 |
| Marketing | - | - | 14,994 | 14,994 | 60,000 | 45,006 |
| Administrative | - | - | 304,659 | 304,659 | 309,936 | 5,277 |
| | <u>-</u> | <u>-</u> | <u>1,154,989</u> | <u>1,154,989</u> | <u>1,364,436</u> | <u>209,447</u> |
| Total expenditures | <u>8,421,348</u> | <u>3,008,014</u> | <u>1,154,989</u> | <u>12,584,351</u> | <u>15,432,299</u> | <u>2,847,948</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ (739,054)</u> | <u>\$ (1,131,538)</u> | <u>\$ (403,568)</u> | <u>\$ (2,274,160)</u> | <u>\$ (4,342,892)</u> | <u>\$ 2,068,732</u> |

Reconciliation of Differences Between Budgetary Inflows and GAAP Revenues:

| | |
|--|----------------------|
| Sources/ Inflows of Resources | \$ 10,310,191 |
| 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. | 137,136 |
| Interfund transfer | <u>375,000</u> |
| Total revenue as reported on the statement of governmental fund revenues, expenditures, and changes in fund balances | <u>\$ 10,822,327</u> |

Reconciliation of Differences Between Budgetary Outflows and GAAP

| | |
|--|----------------------|
| Uses/ Outflows of Resources | \$ 12,584,351 |
| Differences - budget to GAAP: Expenditures budgeted on accrual basis rather than modified accrual basis. | (12,829) |
| Interfund transfer | 375,000 |
| Depreciation expense | <u>(293,364)</u> |
| Total expenditure as reported on the statement of governmental fund revenues, expenditures, and changes in fund balances | <u>\$ 12,653,158</u> |

HOUSTON DOWNTOWN MANAGEMENT DISTRICT

Notes to Required Supplementary Information

(Unaudited)

For the Year Ended December 31, 2015

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.