

Midtown Management District

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

December 31, 2015



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December 31, 2015**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Midtown Management District
Houston, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of the Midtown 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 opinions 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 of 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Midtown Management District, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 on pages 3 through 14 and 24 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.

Carr, Riggs & Ingram, L.L.C.

Houston, Texas
June 1, 2016

Midtown Management District Management's Discussion and Analysis (Unaudited)

This discussion and analysis of Midtown Management District's (the "District") financial statements provides an overview of the District's financial performance during the year ended December 31, 2015. This discussion and analysis includes comparative data for the year ended December 31, 2014 and a brief explanation for significant changes between fiscal periods. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and current known facts, please read in conjunction with the District's basic financial statements and the notes.

FINANCIAL HIGHLIGHTS

General

- The assessment rate for the tax year 2015 remained at \$0.1181 per \$100 valuation of properties located in the District. Total assessment revenue for the year ended December 31, 2015 was budgeted at \$1,811,700. Throughout the course of the year as the certified tax rolls were calculated, the final assessed levy for tax year 2014 (fiscal year 2015) was \$1,791,100. The District received current year assessments totaling approximately \$1,772,000 at a collection rate of 99%.
- The Board of Directors (the "Board") and Committees spent a significant amount of time in the fiscal year working on the new proposed Service and Improvement Plan and Assessment Plan (2015-2024). Each committee dedicated a portion of monthly meeting time to developing goals, objectives and programs based on information solicited from stakeholders at over 100 meetings, interviews, FOCUS Groups and Townhalls. Each Committee worked to develop an estimated 10-Year budget based on new and enhanced programming.
- During the first quarter of 2015 the Board adopted a Resolution authorizing the District to continue to work with the Midtown Redevelopment Authority (the "Authority") in making application for grant funds for Transportation Improvement Projects in Midtown through the Houston-Galveston Area Council. The District has applied for grants to assist in the construction of improvements on Brazos Street, Main Street and Wheeler Avenue in Midtown.
- In July 2015, the Board approved a Tri-Party Agreement between the District, the Authority, and the Midtown Improvement and Development Corporation ("MIDCorp") for certain management and maintenance services (the "Tri-Party Agreement"). Pursuant to the terms of this Tri-Party Agreement, MIDCorp will manage and maintain certain Legacy Improvements (as defined in the Tri-Party Agreement) in Midtown. The Tri-Party Agreement provided for an initial one-time payment in fiscal year 2015 from the District to MIDCorp of \$250,000 and annual payments beginning in fiscal year 2016 to MIDCorp to pay for the management and maintenance services to be provided. The Board approved a transfer of \$250,000 from the Parks Capital Reserve Account to fund the maintenance obligations and to establish a repair and replacement fund as provided for in the Tri-Party Agreement.

Midtown Management District Management's Discussion and Analysis (Unaudited)

FINANCIAL HIGHLIGHTS (Continued)

- At the December 9, 2015 regular Board meeting the District's Board of Directors received the Hearing Examiner's Report and Recommendations to the Board relating to the Proposed 10-Year Service and Improvement Plan and Assessment Plan. At that meeting the Board of Directors adopted an Order granting the Petition for Services and Improvements, approving the Service and Improvement Plan and Assessment Plan, approving the District's assessment roll, levying annual assessments against property in the District for a 10 year period, specifying the method of payment and the amount of annual installments of the assessment, providing penalties and interest on delinquent assessments, authorizing the collection of assessments and containing other related matters.
- At the December 9, 2015 regular Board meeting, the District's Board of Directors recommended no change to the rate of assessment for year one of the District's current Service and Improvement Plan and Assessment Plan (2015-2024). The rate has remained at \$0.1181 per \$100 of valuation for the past 11 years.
- As required by Texas law the Board of Directors conducted an annual review of the District's Investment Policy and its list of Qualified Broker/Dealers. The Board of Directors made no changes to the District's Investment Policy. The Board of Directors updated the list of Qualified Broker/Dealers in order to give the District's Investment Officer as much flexibility as possible to meet the investment objectives outlined in the approved Investment Policy.

Public Safety Committee

- In an effort to enhance public safety in Midtown, the District contracts with Harris County for Deputy Constables to provide patrol services, online Patrol Alert filing, online Vacation Watch Requests, event security for Midtown coordinated events and community crime statistics. The contract term of the Interlocal Agreement for Law Enforcement Services expired on February 28, 2015 and was renewed for a term ending February 28, 2016. The annual cost for Deputy Constables of the agreement for one supervising sergeant and five patrolling deputies is approximately \$470,400.
- The District also pays the difference in the cost of electricity between what the City of Houston pays for its standard cobra head street lights and the signature coach lights installed in Midtown. For calendar year 2015 the delta payment for electricity in the District was approximately \$246,000 and was paid in April 2016.
- The District continues the contract to provide a bi-monthly survey to detect streetlight outages in Midtown. Streetlight outages are reported to CenterPoint Energy for repair and followed up on by SMC Logistics. In July 2015, in response to resident concerns regarding light outages in Elizabeth Baldwin Park, the Board expanded its contract with SMC Logistics to include surveys for light outages in all park spaces in Midtown. The cost of the service is approximately \$2,100 annually.

Midtown Management District Management's Discussion and Analysis (Unaudited)

FINANCIAL HIGHLIGHTS (Continued)

- In November of 2015, the District upon recommendation of the Public Safety Committee installed additional lighting around five tree wells that house electricity in Bagby Park to create a well-lit safer park. The project included 225 sets of Mini-LED Cool White lights. Each set contains 50 lights end to end for a total of 11,250 lights. The total cost of the project, including labor, materials and supplies was approximately \$8,400.
- The Public Safety Committee Chair and the District Operations Manager continue to represent the Midtown community on the Houston Police Department South Central Patrol Division's Citizens Advisory Panel. The panel meets quarterly to discuss concerns that are specifically related to Midtown with HPD command staff.

Services and Maintenance Committee

- The District continued its Midtown Field Services Program. Under this Program, the District provides services and maintenance in public right-of-ways and maintains certain City-owned parks located in Midtown. These services include landscaping, mowing, weed eating, edging, mulching, irrigation system maintenance and repair, street sweeping, tree pruning and seasonal planting. Services provided by the Field Services Team include replacing Midtown logo street signs, debris removal, new tree planting and other general maintenance of the public right-of-ways. Since implementing the Field Services Program, the District has been able to eliminate its vendor contracts for street sweeping, tree pruning, and fertilization and has assigned these duties to the Field Services Team. Having this dedicated team allows the District to fulfill its obligations under Interlocal Agreements with the Authority to maintain capital improvements constructed by the Authority. The total cost for the Field Services Program during 2015 was approximately \$190,000.
- The District's Board of Directors approved contracts to fund the installation of more than 1,300 linear feet of new sidewalks, undergirding an ongoing program to improve pedestrian mobility and provide safer connectivity to transit, parks, cultural art venues and local businesses within Midtown. The repair and/or replacement of damaged or missing sidewalks in the public right -of-ways focused on residential areas primarily on the east side of Main Street. Total cost for this project during 2015 was approximately \$81,500.
- In the first quarter of 2015 the Board of Directors voted to use funding from the Elgin Street Public Right-of-Way Capital Reserve to replace the soil and plants in approximately 43 planting urns on Elgin Street from Main Street to Caroline Street on the east side of Main Street. Total cost for this project during 2015 was approximately \$15,000.
- In July 2015 the Board of Directors voted to repair the irrigation systems in the Elgin Street esplanade and in Elizabeth Baldwin Park on the east side of Main Street at a cost of \$25,000.

Midtown Management District Management's Discussion and Analysis (Unaudited)

FINANCIAL HIGHLIGHTS (Continued)

- As part of the District's Interlocal Agreements with the City and the Authority, the District provides regular complete maintenance of the following: Elizabeth Baldwin Park, Elizabeth Glover Park, Midtown Park, and Main Street and Elgin Street pedestrian enhancements. The cost to maintain Elizabeth Baldwin Park and Elizabeth Glover Park during the year ended December 31, 2015 was approximately \$52,000. The cost to maintain Main Street and Elgin Street Pedestrian Enhancements during the year ended December 31, 2015 was approximately \$13,000.
- In December 2015, based on stakeholder feedback received during the Service and Improvement Plan and Assessment Plan (2015-2024) meetings the Board approved the "SeeClickFix" Project. SeeClickFix is a software program currently being used by the City to record and monitor calls for service in their 311 program. SeeClickFix will serve Midtown by streamlining the District's calls for service. The program will have a mobile application available across a variety of digital platforms as well as an online presence. SeeClickFix is scheduled for a soft launch in the first quarter of 2016 with an official launch in May of 2016. The initial setup cost for the SeeClickFix program was \$2,000, which was paid during the year ended December 31, 2015. Annual costs are expected to be \$7,000 beginning in 2016.
- The District has a contract with the Greater East End Management District for the Midtown Graffiti Abatement Program. Abatement services are provided on a bi-monthly basis for areas in the public right-of-way only. The program which is well received by the community has enhanced the District's core mission, to provide a clean safe environment for its stakeholders. Residents have been asked to assist the Graffiti Abatement Program by identifying areas in the public right-of-way that need abatement. In 2015, a total of 364 sites in the public right-of-way were abated at a cost of approximately \$3,800.

Marketing and Perception Enhancement Committee

- The Board of Directors voted to discontinue publication of the Midtown Paper as of the second quarter of 2015. This change resulted in approximately \$49,000 being available for other Marketing projects.
- In the first quarter of 2015, in lieu of publishing the Midtown Paper, the Board secured a contract with a vendor to develop and design the new Midtown Cultural Arts and Entertainment Guide at a cost of \$7,000.
- In May 2015 the new Midtown website was launched. The new website has enhanced branding, a new events calendar, updated technologies, and is mobile friendly across a variety of digital platforms. The new Midtown website was a joint project of the District and the Authority. The District budgeted \$4,000 to assist in the project. The Authority paid a substantial portion of the cost of developing the new website.

Midtown Management District Management's Discussion and Analysis (Unaudited)

FINANCIAL HIGHLIGHTS (Continued)

- The Midtown eNews remains an efficient form of advertising for area businesses in Midtown. This weekly Internet publication provides valuable information regarding future meetings and events in Midtown. At the end of fiscal year 2014 there were approximately 2,039 registered subscribers receiving the weekly Midtown eNews. At the same time in 2015 there were 2,092 subscribers. This is a 2.5% increase in the number of subscribers in 2015. The annual cost to publish the weekly eNews is approximately \$840.

Cultural Arts & Entertainment District Committee

- The Cultural Arts & Entertainment Committee hosted its Annual Townhall in January 2015 to present the new proposed 10-Year Service and Improvement Plan and Assessment Plan (2015-2024) to the community and to update stakeholders on the status of committee projects as they relate to the proposed 10-Year Service and Improvement Plan and Assessment Plan (2015-2024).
- In August 2015 the Board of Directors approved renewing the contract with Zapplication® an online artist application system used by artists to register for Art in the Park. The 1-year renewal cost for Zapplication® was \$1,000.
- In August 2015 the Board of Directors approved the contract to participate in the City-wide Mini-Murals Project. This project was administered by the City and involved using professional artists to design and install unique original art on utility boxes throughout the City. Four (4) mini-murals were placed in Midtown at locations approved by the City at a cost of \$2,500 each.
- Due to inclement weather, Midtown Art in the Park was postponed twice and eventually the District was forced to cancel the event for the year. The District received \$8,000 in sponsorships which was used (with sponsor's permission) to fund other park programming in 2015. Unfortunately, the District spent approximately \$9,000 on the Midtown Art in the Park event, prior to cancellation and was unable to recoup these costs.
- The Cultural Arts & Entertainment Committee completed the 10-Year Cultural Arts Master Plan (2015-2024) for Midtown. The 10-Year Cultural Arts Master Plan (2015- 2024) is an in- depth guide to strategic decision-making regarding Cultural Arts Policies, Programs and Projects in Midtown. The District will be able to use the 10-Year Cultural Arts Master Plan (2015-2024) in pursuing other funding sources, such as grants and public and private donations for the arts. Total cost for the plan was \$50,000.
- In December 2015 the District received a state funded dollar for dollar matching grant in the amount of \$25,000 to be used to build a Cultural Arts and Entertainment District website. The new website will provide information, calendars, contact information, maps to tours, short videos, links to other websites, and performance information about the more than 90 cultural organizations, approximately 100 restaurants and approximately 50 night-life venues located in Midtown. The new website will be a comprehensive source of information regarding cultural arts and entertainment in Midtown. The District will invest up to \$25,000 to develop the website and will receive a dollar for dollar matching grant from the State of Texas Commission on the Arts for up to \$25,000.

Midtown Management District Management's Discussion and Analysis (Unaudited)

FINANCIAL HIGHLIGHTS (Continued)

Urban Planning Committee

- The Urban Planning Committee continues to work toward encouraging developers to include pedestrian enhancements on their projects that are in keeping with the urban nature of the Midtown community.
- In February 2015 the International "Before I Die" Wall Project was installed in Bagby Park, as way to activate the newly renovated park space and begin to build on parks programming. It is the goal of the Urban Planning Committee to keep this wall in place changing out the messaging on the board at an annual cost of approximately \$7,700.
- In the first quarter of 2015, based on stakeholder feedback received during various Community meetings, the Urban Planning Committee began researching a Midtown Circulator System, a form of public transportation that will move visitors and stakeholders along a predetermined route through the community from the east side of Midtown to the west side. During August and September 2015 the Committee conducted an online survey to gauge interest in a Midtown Circulator System. The survey received 319 responses or approximately 5% of the population. The data from the survey has been closely tracked so that the information can be used to help secure possible grant funding for the project at a future time.
- In April 2015 the first full four corner intersection Artistic Crosswalk Pilot Project in Houston was completed by the District. The project location, Elgin Street at Louisiana Street, was selected by the City of Houston Public Works and Engineering Department. The project was designed to calm traffic in the area while increasing walkability.
- In November 2015, the District partnered with Houston Bike Share to fund installation of a 5th B-cycle station in Midtown. The new B-cycle station is located at Brazos and McGowen Streets, and offers a convenient, healthy, and affordable transportation alternative to Midtown residents and visitors. The newly installed station has 13 bike docks and 8 signature red B-cycles. The cost of this project was \$25,000.

Event Coordination and Participation

During the period from January 1, 2015 to December 31, 2015, the District coordinated and participated in the following events:

- Wrap Up Townhall presentation "Midtown Service and Improvement Plan and Assessment Plan (2015-2024)" – January 2015
- Cultural Arts Master Plan Workshop – March 2015
- Urban Land Institute Spring Conference, Presentation and Mobile Tour – May 2015
- Neighborhoods USA Conference – Millennials Tour May; 2015

Midtown Management District Management's Discussion and Analysis (Unaudited)

FINANCIAL HIGHLIGHTS (Continued)

- 15th Annual Midtown VISIONS Cultural Arts Tour – April 2015
 - Cultural Arts based Parks Programming - Jazz Education Inc. Live at Lunch – July 2015; The Women of August Wilson Play reading – October 2015; Holiday Wine Down – December 2015; Holiday Live at Lunch – December 2015
- Combined committee meeting – Cultural Arts and Entertainment and Urban Planning Committees – August 2015
- National Night Out – October 2015
- Public Meeting – October 2015
- Public Hearing – December 2015
- Presentation of the Midtown Cultural Arts Master Plan (2015-2024) – November 2015
- Quarterly Houston Police Department Citizens Advisory Panel
- Meetings held in 2015 - 60 committee meetings; 13 Board of Directors' meetings; 12 meetings dedicated specifically to Public Safety concerns

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Under Governmental Accounting Standards Board, the District qualifies as a special purpose government with one program – revitalization of the Midtown area.

Government-wide statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business. The Statement of Net Position includes all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them presented as net position. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in this statement, regardless of when cash is received or paid.

The fund financial statements report information about the District on the modified accrual basis, which only accounts for revenues that are measurable and available within the current period or soon enough thereafter to pay liabilities of the current period. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The District has one governmental fund.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with the similar information presented for governmental activities in the government-wide financial statements. Adjustments are provided to reconcile the government-wide statements to the fund statements. Explanations for the reconciling items are provided as part of the basic financial statements.

Midtown Management District Management's Discussion and Analysis (Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Statement of Net Position

The Statement of Net Position includes all assets, liabilities and deferred inflows of resources using the accrual basis of accounting. The following table reflects condensed information (rounded to the nearest thousand) on the District's net position:

<i>December 31,</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 731,000	\$ 759,000
Assessment receivables	1,784,000	1,467,000
Other receivables	35,000	8,000
Prepaid expenses	39,000	37,000
Investments	394,000	708,000
Total assets	2,983,000	2,979,000
Liabilities		
	570,000	420,000
Deferred inflows of resources	2,022,000	1,815,000
Net position - unrestricted	\$ 391,000	\$ 744,000

Cash, cash equivalents and investments were held in money market accounts, certificates of deposit, and TexStar, a local government investment pool, throughout the year. The fluctuation among categories is primarily due to maturities of certificates of deposits. During 2015, the District used \$325,000 of reserve funds for unbudgeted service and maintenance costs

Liabilities include a payable to the City of Houston (the City) for electricity costs for the period January through December. The City bills the District on its calendar year basis for the delta electric cost of the decorative street lights located within the District. Street lights are installed by the Authority on an on-going basis. The increase in liabilities from 2014 to 2015 was due to an increase in the number of street lights included on the invoice from the City for the delta electric cost and timing of receipt of invoices for services rendered during 2015 which were not paid by the District until 2016.

Deferred inflows of resources relate to 2016 and 2015 assessments as of December 31, 2015 and 2014, respectively. Taxes levied on October 1 of calendar year 2014 and 2015 are recorded as accounts receivable and deferred revenue at date of the levy. All amounts are deferred until the following fiscal year.

Net position of the District's governmental activities decreased in 2015 as the District's Board of Directors approved using reserve funds for unbudgeted service and maintenance costs.

Midtown Management District Management's Discussion and Analysis (Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Statement of Activities

The Statement of Activities presents the operating results of the District. The following table reflects condensed information (rounded to the nearest thousand) on the District's operations.

<i>For the years ended December 31,</i>	2015	2014
Revenues		
Assessments, net	\$ 1,817,000	\$ 1,620,000
Federal grant revenue	-	422,000
Interest and other revenues	2,000	25,000
Total revenues	1,819,000	2,067,000
Expenses		
Security and public safety	722,000	660,000
Marketing and perception enhancement	54,000	92,000
Urban planning	57,000	21,000
Service and maintenance	655,000	373,000
Cultural and entertainment	79,000	-
Federal grant expense	-	422,000
District administration	605,000	504,000
Total expenses	2,172,000	2,072,000
Change in net position	(353,000)	(5,000)
Net position - beginning of year	744,000	749,000
Net position - end of year	\$ 391,000	\$ 744,000

Midtown Management District Management's Discussion and Analysis (Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Assessment revenues received by the District are used to fund the District's approved service plan. Assessment revenue includes the following:

<i>For the years ended December 31,</i>	2015	2014
Assessments collected	\$ 1,772,000	\$ 1,566,000
Delinquent collections, net of overpayments	16,000	38,000
Penalties and interest	29,000	16,000
Net assessments	\$ 1,817,000	\$ 1,620,000

The District's collection rate for each of the years ended December 31, 2015 and 2014 was 98% and 99%, respectively.

The District's new ten year service plan, categorizes expenses into five committee areas, capital reserve for infrastructure replacement and administration. Public Safety expenses primarily include contracted electricity costs for streetlights and payments under contracts for constables. Service and Maintenance expenses primarily include landscaping maintenance of all public assets including two parks and public rights of way in Midtown, building new and repairing sidewalks. Marketing and Economic Development expenses include costs associated with producing stakeholder communications reports and the Midtown Cultural Arts Guide. *Cultural Arts and Entertainment* expenses primarily include the development of the 10-Year Cultural Arts Master Plan and the grant fund match to build a new Cultural Arts and Entertainment District website. *Urban Planning* includes expenses related to B-cycle Station and the Artistic Crosswalk Pilot Program. Personnel costs and other consultant costs are included in administration expenses.

The District serves as the grant recipient of grant funds received from the Federal Transit Administration (FTA). The District partners with the Authority on FTA funded projects. The Authority manages the development and construction of FTA funded projects and is responsible for any required matching funds and any costs which are not reimbursed by FTA. No FTA funds were received in 2015.

Governmental Fund

At the end of the current fiscal period, the District's governmental fund reported an ending fund balance of approximately \$360,000. Approximately \$330,000, of this total amount has been committed by the District's Board of Directors for future electricity payments for the enhanced street lights (\$230,000) and an emergency disaster reserve (\$100,000). The remainder of the fund balance, approximately \$30,000, is available for spending at the District's discretion provided such expenditures are allowable by the District's Service and Improvements Plan and Assessment Plan.

Midtown Management District Management's Discussion and Analysis (Unaudited)

Capital Assets and Long-Term Debt

As of December 31, 2015 and 2014, the District had no capital assets or long-term debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's Board of Directors approves the annual budget of the District. The District's budget was not amended during 2015.

FUTURE PROJECTS

The District's Board of Directors is committed to seeking and obtaining stakeholder input into Midtown's future. The District will continue to host open meetings and focus groups for each committee in order to hear stakeholder's vision of what Midtown should be.

Security and Public Safety

In January 2016 the District's Board of Directors approved a contract with Harris County to continue to provide deputy constables to patrol the community at a cost of approximately \$547,000. The contract with Harris County is for the services of six (6) Deputy Constables and a supervising sergeant, for a total of seven (7) deputies and extends through February 2017, unless earlier terminated.

Service and Maintenance

The Service and Maintenance Committee will continue to provide programs for the District that offer a leveraged use of District's maintenance dollars, where possible, to improve the overall aesthetic appearance of Midtown and to help ensure that Midtown continues to be a clean, safe place to live and work. The committee will also continue the Midtown Field Service Program which provides maintenance and upkeep of the public right of way and park spaces in Midtown.

The committee plans to launch SeeClickFix in the second quarter of 2016.

The District continues to leverage its maintenance dollars by participating with the Authority and MidCorp.

Marketing and Economic Development

The Marketing and Economic Development Committee plans to develop a second Midtown Cultural Arts and Entertainment Guide. They will also direct the development of the new Midtown Cultural Arts and Entertainment District website.

Cultural Arts and Entertainment

The Cultural Arts and Entertainment District Committee will continue to work to develop projects and arts based parks programming that will maintain and enhance Midtown's State of Texas designation as a Cultural Arts Entertainment District.

Midtown Management District Management's Discussion and Analysis (Unaudited)

FUTURE PROJECTS (Continued)

The committee will publish their 10-Year Cultural Arts Master Plan (2015-2024) and will assist in the development of their new website.

Urban Planning

The Urban Planning Committee is working to develop a Pilot Midtown Circulator Program for the NCAA Final Four. The goal of the pilot program is to lay the groundwork for a permanent circulator program.

* * * * *

This financial report is designed to provide a general overview of the Midtown Management 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 Mathias Thibodeaux, Executive Director, 410 Pierce Street, Suite 355, Houston, Texas 77002.

Midtown Management District
Governmental Fund Balance Sheet and Statement of Net Position

December 31, 2015

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 731,238	\$ -	\$ 731,238
Assessment receivables	1,783,292	-	1,783,292
Other receivables	35,174	-	35,174
Prepaid expenses	39,201	-	39,201
Investments	394,171	-	394,171
Total assets	\$ 2,983,076	\$ -	\$ 2,983,076
Liabilities			
Accounts payable	\$ 322,948	\$ -	\$ 322,948
Accrued liabilities	246,531	-	246,531
Total liabilities	569,479	-	569,479
Deferred inflows of resources			
Deferred revenue	2,053,126	(30,862)	2,022,264
Fund balances			
Committed	330,000	(330,000)	-
Unassigned	30,471	(30,471)	-
Total fund balances	360,471	(360,471)	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,983,076	\$ -	\$ -
Commitments and contingencies			
Net position - unrestricted		\$ 391,333	\$ 391,333
Total fund balance of governmental fund			
			\$ 360,471
Amounts reported for governmental activities in the statement of net position are different because:			
Deferred revenue is not available for current period expenditures and therefore deferred in the general fund			
			30,862
Net position of governmental activities			\$ 391,333

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

**Midtown Management District
Governmental Fund Revenues, Expenditures and
Changes in Fund Balance and Statement of Activities**

For the year ended December 31, 2015

	General Fund	Adjustments	Statement of Activities
Revenues			
Assessments, net	\$ 1,830,610	\$ (13,778)	\$ 1,816,832
Interest and other revenues	2,089	-	2,089
Total revenues	1,832,699	(13,778)	1,818,921
Expenditures/expenses			
Security and public safety	722,256	-	722,256
Marketing and perception enhancement	54,130	-	54,130
Urban planning	56,480	-	56,480
Service and maintenance	654,611	-	654,611
Cultural and entertainment	79,128	-	79,128
District administration	604,721	-	604,721
Total expenditures/expenses	2,171,326	-	2,171,326
Excess of expenditures over revenues	(338,627)	338,627	-
Change in net position	-	(352,405)	(352,405)
Fund balance/net position			
Beginning of year	699,098	44,640	743,738
End of year	\$ 360,471	\$ 30,862	\$ 391,333
Net change in fund balance of general fund			\$ (338,627)
Amounts reported for governmental activities in the statement of activities are different because:			
Assessment revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the general fund			(13,778)
Change in net position of governmental activities			\$ (352,405)

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

Midtown Management District Notes to Basic Financial Statements

NOTE 1: DESCRIPTION OF ORGANIZATION

Midtown Management District (the District), a municipal management district over the City of Houston's Midtown Area, was created by the State of Texas on May 26, 1999, as a body of politic and corporate, and a governmental agency of the State of Texas. A 17 member Board of Directors governs the District.

The District's five main areas of operation include security and public safety; marketing and perception enhancement; urban planning; services and maintenance; and District administration. All programs are under a ten-year service plan for the Midtown Area revitalization. Security and public safety consists of providing patrols by various law enforcement agencies and street lighting. Marketing and perception enhancements include a marketing plan to attract people back to the Midtown Area, by developing a positive image and community relations program. Urban planning includes enhancing the midtown Area's image and amenities by developing an overall master plan for parks, landscaping, maintenance and signage. Service and maintenance includes maintaining Midtown parks and all public assets. District administration includes the successful creation of the District and implementation of the service plan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the reporting government as a whole. These statements are prepared on the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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. Annual assessments are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

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

Midtown Management District Notes to Basic Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fund Accounting

The District uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives.

The District uses a General Fund (a Governmental Fund Type) to account for an annual assessment of \$0.1181 per \$100 valuation of taxable real property according to the tax rolls of the Harris County Appraisal district (Appraisal District). These funds are to be used to implement the District’s service plan.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District did not have any nonspendable resources as of December 31, 2015.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted resources as of December 31, 2015.

Midtown Management District Notes to Basic Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District’s Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the District’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the District’s Executive Director through the budgetary process. The District did not have any assigned resources as of December 31, 2015.

Unassigned – This classification includes the residual fund balance for the General Fund.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the District’s policy to use unassigned resources first, then assigned, and then committed as needed.

Deferred Inflows of Resources

The District’s collection or billing of the subsequent year’s assessment represents an acquisition of net position or fund balance that applies to a future period and thus, will not be recognized as an inflow of resources (revenue) until that time.

Budget and Budgetary Accounting

The District’s Board of Directors adopts an annual budget for the General Fund. The budget is based on projected assessment revenues and may be amended during the year, as determined necessary, by the Board of Directors. Additionally, after adoption, increases and decreases in the budget may be made only upon the Board of Directors’ approval. A review of revenues and expenditures compared to budget is conducted on a monthly basis with the Board of Directors.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all cash on hand, demand and time deposits held in banks, and certificates of deposit with maturities of three months or less at date of purchase.

Investments consist of funds maintained by a trustee in a public funds investment pool that are based on quoted market prices and certificates of deposits with maturities greater than three months at date of purchase.



Midtown Management District Notes to Basic Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Tax

The District is exempt from Federal income taxes under section 115 of the Internal Revenue Code.

Use of Estimates

The preparation of the District's basic 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 basic financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of assessment receivables and certain accrued liabilities. The District's management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

NOTE 3: AUTHORIZED INVESTMENTS

The Board of Directors of the District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act (sec. 2256 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) certificates of deposit, and (3) TexStar, an investment pool; and (4) various other items provided that it complies with the Public Funds Investment Act.

NOTE 4: DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires pledging of collateral for all bank balances in excess of Federal Deposit Insurance Corporation (FDIC) limits. At December 31, 2015, the carrying amount of the District's deposits totaled \$495,525 and the bank balances totaled \$562,081. The District's funds were fully collateralized.

Midtown Management District
Notes to Basic Financial Statements

NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

Cash and cash equivalents at December 31, 2015 consist of the following:

Bank deposits:		
Demand deposits		\$ 495,525
Cash and cash equivalents:		
Money market funds		132,924
Certificates of deposits		102,789
<hr/>		
Total cash and cash equivalents		<u>\$ 731,238</u>

Investments

As of December 31, 2015, the District has the following investments and maturities:

Fund and investment type	Total	Maturities in years			
		Less Than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 388,637	\$ 263,637	\$ 125,000	\$ -	\$ -
TexStar	5,534	5,534	-	-	-
<hr/>					
Total investments	<u>\$ 394,171</u>	<u>\$ 269,171</u>	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District limits its exposure to interest risk by structuring its portfolio to provide for liquidity of operating funds by maximizing yields for funds not immediately needed. The investment policy limits the maximum maturity of operating funds and assessment revenue funds to three (3) years.

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The District places no limit on the amount the District may invest in any one authorized investment instrument.

Investments that are obligations of or guaranteed by the U.S. Government do not require disclosure of credit quality. The District's investment in TexSTAR, a local government investment pool created under the Interlocal Cooperation Act, is rated AAA by Standard and Poor's and maintains a weighted average maturity of 60 days or less, with a maximum weighted average maturity of 13 months for any individual security. The fair value of TexSTAR is based on quoted market values of the underlying investments of the pool and/or fund.

Midtown Management District
Notes to Basic Financial Statements

NOTE 5: ACCRUED LIABILITIES

The City of Houston is responsible for the standard electricity costs for the street lights in the District. The Midtown Redevelopment Authority (the Authority) has and is installing enhanced street lights in the District for which the District has agreed to pay the delta electricity cost differential. The current estimated delta electricity cost per year will be approximately \$291 per street light. As of December 31, 2015, approximately 840 street lights have been installed by the Authority and approximately \$247,000 has been accrued for related electricity costs owed to the City of Houston.

NOTE 6: FUND BALANCE – GOVERNMENTAL FUND

As of December 31, 2015, the fund balance of the District’s general fund is classified as follows:

Committed to:

Electricity costs related to enhanced street lights	\$ 230,000
Emergency disaster reserve	100,000
Unassigned	30,471
<hr/>	
Total fund balance	\$ 360,471

NOTE 7: ANNUAL ASSESSMENT

The District adopted a ten-year assessment plan and levies the assessment each year in October. The assessment was levied at the rate of \$0.1181 per \$100 valuation of taxable real property for tax year 2015, based upon the values approved by the Harris County Appraisal District’s Appraisal Review Board. The assessments are levied in accordance with the due dates and delinquent dates for penalty and interest rates as provided in the Texas Tax Code.

The rate is determined annually by the District’s Board of Directors provided however, that the assessment rate may not increase greater than 105% of the previous year. Beginning with the second year, the total dollar assessment is capped at 110% of the assessment for the previous year. This cap does not apply to new improvements or to rehabilitation of existing improvements that increase the value of the improvements by 125% or greater. The District contracts with Equi-Tax, Inc. for assessment collection services.

For the 2015 tax year, the District levied an ad valorem assessment of \$0.1181 per \$100 of assessed valuation, resulting in an assessment of \$2,022,264 on the assessed valuation of \$1,712,331,181. As of December 31, 2015, \$273,943 of the 2015 assessment was collected. Revenue recognized for the 2015 assessment has been fully deferred to 2016.

Midtown Management District Notes to Basic Financial Statements

NOTE 7: ANNUAL ASSESSMENT (Continued)

Key dates in the property tax cycle are as follows:

Levy Date	- October 1, or as soon thereafter as practicable
Lien Date	- January 1
Due Date	- Not later than January 31
Delinquent Date	- February 1, at which time the taxpayer is liable for penalty and interest

NOTE 8: RELATED PARTY TRANSACTIONS

The District has an administrative contract with the Authority whereby the Authority, provides administrative and management services to the District. The District and the Authority share the same executive director. The Authority provided services to the District amounting to approximately \$334,000 for the year ended December 31, 2015. At December 31, 2015, approximately \$90,000 was payable to the Authority under this contract.

NOTE 9: COMMITMENTS

Midtown Improvement and Development Corporation

The District, the Authority and Midtown Improvement and Development Corporation (“MidCorp”) entered into a 10-year joint management and maintenance agreement effective July 1, 2015. MidCorp was created to assist the District by providing maintenance services of certain public improvements that are beyond the maintenance responsibility of the City, and are within the service area as defined by the agreement (the “Legacy Improvements”). The District will budget and contribute funds annually for the Legacy Improvements. For the year ended December 31, 2015, the District remitted \$250,000 to MidCorp which was the initial payment to fund the Legacy Improvements for the period July 1, 2015 through December 31, 2015 and to establish a reserve fund for the repair and replacement of the Legacy Improvements obligations. Beginning February 1, 2016, the District will remit \$200,000, and in each subsequent year, the District will contribute an amount equal to the prior year’s contribution plus three percent (3%) for the Legacy Improvements.

In addition, the District’s Executive Director and Board Chairman are also members of MidCorp’s Board of Directors.

Other

The District’s annual contract with the Harris County Constables for patrol services expired in February 2016 and was renewed through February 2017. The monthly cost of this service is approximately \$45,600.

The District has entered into agreements with various consultants to provide professional services.



Required Supplementary Information

Midtown Management District Budgetary Comparison Schedule – General Fund

For the year ended December 31, 2015

	Original and Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance With Budget
Revenues			
Assessments, net	\$ 1,889,879	\$ 1,830,610	\$ (59,269)
Interest and other revenues	3,000	2,089	(911)
Total revenues	1,892,879	1,832,699	(60,180)
Expenditures			
Security and public safety	698,765	722,256	(23,491)
Marketing and perception enhancement	92,600	54,130	38,470
Urban planning	52,000	56,480	(4,480)
Service and maintenance	475,123	654,611	(179,488)
Cultural arts and entertainment	96,000	79,128	16,872
District administration	478,391	604,721	(126,330)
Total expenditures	1,892,879	2,171,326	(278,447)
Change in fund balance	-	(338,627)	(338,627)
Fund balance - beginning of year	699,098	699,098	-
Fund balance - end of year	\$ 699,098	\$ 360,471	\$ (338,627)

See independent auditor's report.