

# Midtown Management District

## FINANCIAL STATEMENTS REQUIRED SUPPLEMENTARY INFORMATION AND SINGLE AUDIT REPORTS

December 31, 2017



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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Midtown Management District  
Houston, Texas

### **Report on the Financial Statements**

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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, 2017, 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 4 through 15 and 26 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Midtown Management District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2018 on our consideration of Midtown Management District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Midtown Management District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Midtown Management District's internal control over financial reporting and compliance.

*Carly Riggs & Ingram, L.L.C.*

Houston, Texas

June 6, 2018

## Midtown Management District Management's Discussion and Analysis

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, 2017. This discussion and analysis includes comparative data for the year ended December 31, 2016 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 2017 remained at \$0.1181 per \$100 valuation of properties located in the District. The average taxable value for a single family residential homesteaded property in Midtown was \$254,578 and based on that value, the average assessment paid on a residential homesteaded property to the Midtown Management District was \$300.66.\* The total assessment revenue for the year ended December 31, 2017 was budgeted at \$2,271,587 and the final assessed levy for tax year 2016 (fiscal year 2017) was \$2,228,431. The District received current year assessments totaling approximately \$2,195,000 resulting in a collection rate of 98%. The assessment rate has remained at \$0.1181 per \$100 of valuation for the past 13 years.
- The District's Board of Directors (the "Board") continues to work closely with the Midtown Redevelopment Authority (the "Authority") in making applications for federal and state grant funds for transportation improvement projects in Midtown. The District has applied for and received such grants to assist in the construction of public right-of-way improvements in Midtown. The District and the Authority will continue to work collaboratively to develop such projects that benefit the entire Midtown community. During 2017, the District served as a conduit for \$245,312 and \$2,729,600 in federal grant funds to the Authority which were used to pay a portion of the costs of the Holman Street Reconstruction Project and the Main Street Reconstruction Project, respectively.
- The Board continues to contract with the Midtown Improvement and Development Corporation ("MIDCorp") doing business as Midtown Parks Conservancy ("MPC") to manage and maintain certain Legacy Improvements, as defined in that certain agreement by and between the District, the Authority and MIDCorp entered into in July 2015, (the "Tri-Party Agreement"). The Tri-Party Agreement provides for annual payments from the District to MIDCorp to pay for the management and maintenance services to be provided thereunder. In fiscal year 2017, the District paid \$206,000 to MIDCorp for such services.

\* – Information provided by Equi-Tax, Inc.

#### Public Safety Committee

- In an effort to enhance public safety in Midtown, the District contracts with Harris County for Precinct 7 Deputy Constables to provide patrol services, online patrol alert filing, online vacation watch requests, event security for Midtown coordinated events, public safety education programs and information, as well as community crime statistical reports. The contract term of the Interlocal Agreement with Harris County for Law Enforcement Services expired on February 28, 2017 and was renewed for a term ending February 28, 2018. The annual cost for five patrolling deputy constables and one supervising sergeant for 2017 was \$483,202.

## Midtown Management District Management's Discussion and Analysis

### FINANCIAL HIGHLIGHTS (Continued)

- 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 2016, the delta payment for electricity used by the Midtown street lights was approximately \$226,000 which amount was paid in July 2017. The District accrued \$253,000 for calendar year 2017.
- The District continues the contract with SMC Logistics to provide a bi-monthly survey to detect street light outages in Midtown. Street light outages are reported to CenterPoint Energy for repair and followed up on by SMC Logistics. The Board of Directors continues to respond to resident concerns regarding light outages in Elizabeth Baldwin Park and other areas. The contract with SMC Logistics was expanded to include surveys for light outages in all park spaces in Midtown. The cost of the service was \$2,550.
- In July 2017, the District hired a retired Houston Police Officer as a part time Security Coordinator. The Security Coordinator serves as the District's liaison to the following agencies; Houston Police Department (South Central and Central Patrol Divisions), the City of Houston Homeless Outreach Team; Harris County Precinct 7 Constables' Office, S.E.A.L. Security Solutions, LLC., Metropolitan Transportation Authority Police Department, Houston Community College Police Department, and City of Houston Public Intoxication Transport Team/Sobering Center. Additionally the Security Coordinator is assisting the District in developing and implementing security, public safety, and crime prevention programs to publicize and increase the level of awareness within the District regarding issues of security and public safety. The cost for a part time Security Coordinator for 2017 was \$10,015.
- In 2017 the District continued its public safety parks programming to provide opportunities for positive interactions between Midtown stakeholder and law enforcement officers. The two different programs "Coffee with a Cop" and "Safety Saturday" give stakeholders the opportunity to meet and get to know the law enforcement officers that patrol the Midtown community. Additionally, the programs offer Midtown stakeholders one-on-one public safety counseling including tips and suggestions and general information to enable them to better protect themselves, their families, and their businesses. Representatives from the Houston Police Department, both Central and South Central Divisions, Harris County Precinct 7 Deputy Constables, Houston Community College officers, and METRO Police officers participated in these programs. Safety Saturday presentations provided detailed information regarding burglary of a motor vehicle prevention tips, citizens on patrol crime watch program, and other topical programs. The District-cost for both Safety Saturday and Coffee with a Cop for fiscal year 2017 was \$677.

## Midtown Management District Management's Discussion and Analysis

### FINANCIAL HIGHLIGHTS (Continued)

- The District continues to assist the City as it attempts to deal with the complex issues surrounding homelessness. The District participates in the City's Public Intoxication Transport Team Program (PIT). The PIT Team is comprised of a social worker, a law enforcement officer, and emergency medical technician personnel who patrol the area in a van and transport eligible individuals to the Houston Sobering Center. The District and other entities provide financial assistance to the PIT Team Program. The District's out-of-pocket financial contribution to the program in fiscal year 2017 was \$24,159.

### Service 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, tree pruning, and seasonal planting. Additional services provided by the Field Services Team also 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 a dedicated Field Services Team allows the District to fulfill its obligations to maintain capital improvements constructed by the Authority. The total cost for the Field Services Program during 2017 was \$203,496.
- Pursuant to Interlocal Agreements with the City, the District provides regular complete maintenance of Elizabeth Baldwin Park and Elizabeth Glover Park. The cost to maintain Elizabeth Baldwin Park and Elizabeth Glover Park during the year ended December 31, 2017 was \$34,344.
- Replacing damaged or dead landscaping, and planting of new trees in the public right-of-ways are of vital importance to maintain the beauty and walkability of Midtown. The District replaced damaged or dead landscaping and for planting of new trees at a cost of \$8,000.
- The District is responsible for the upkeep of the dog park at Elizabeth Glover Park and the pet waste stations located throughout Midtown. The District's cost for pet waste station supplies for fiscal year 2017 was \$3,240.
- The District continues to use the SeeClickFix program to provide a streamlined process for the District's calls for service. The program has a mobile application across a variety of digital platforms as well as an online presence. Between January 1, 2017 and December 31, 2017, the program data showed that 253 issues were opened, 252 issues were acknowledged, and 216 issues (or 85% of the issues) were completed. The District's 2017 costs for SeeClickFix was \$7,210.



## Midtown Management District Management's Discussion and Analysis

### FINANCIAL HIGHLIGHTS (Continued)

- The District has a contract with the Greater East End Management District for Graffiti abatement in Midtown. Graffiti 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 of providing a clean safe environment for its stakeholders. Residents assist the Graffiti Abatement Program by identifying areas in the public right-of-way that need abatement and reporting areas via on SeeClickFix. In 2017, a total of 444 sites were abated in comparison to 427 sites abated in 2016. This represents an approximate 4% increase in the number of sites abated over the prior year at no increased cost to the District. The District's cost for the Graffiti Abatement Program for 2017 totaled \$3,840.

### Marketing and Economic Development Committee

- Based on user feedback and demand the District maintains a diverse communications plan. The District's current communication plan includes two websites that are constantly updated, five social media channels that are updated daily, weekly Midtown eNews, educational videos on the District's website with in-depth education tools, various print pieces such as the Cultural Arts Guides and the "Know Where to Go" roadmap, a weekly Midtown Blog, ads in area publications, and live media appearances. All of the various communication tools are intended to help educate the public and spur economic development in Midtown. The cost to educate and keep Midtowners informed was \$26,500.
- The District publishes the bi-annual Midtown Buzz, a printed media piece that provides readers with up to date information on new business, constructions project and valuable information about community meetings, events and important stakeholder participation opportunities. The cost of the Midtown Buzz is \$31,142.
- An updated Midtown Cultural Arts and Entertainment Guide was designed, printed and distributed at a cost of \$12,848.
- The Midtown eNews remains an efficient form of advertising for area businesses. This weekly Internet publication provides valuable information regarding upcoming meetings, events and activities in Midtown. At the end of fiscal year 2016 there were 3,312 registered subscribers receiving the weekly Midtown eNews. At the same time in 2017 there were 4,380 subscribers, representing a 32% increase in the number of subscribers. The annual cost to publish the weekly eNews during 2017 was \$950.

### Cultural Arts and Entertainment District Committee

- The annual Midtown Art in the Park event was held on April 1, 2017 and 44 booths were sold. The District received an event sponsorship in the amount \$5,000 from Central Bank Houston to cover the expenses related to the Wine Meadow Painting. The District received a sponsorship in the amount of \$1,000 to cover additional incidental event expenses. Additionally the committee collected approximately \$9,000 in application and booth fees. The approximate cost of Art in the Park 2017 was \$26,715.

## Midtown Management District Management's Discussion and Analysis

### FINANCIAL HIGHLIGHTS (Continued)

- The Midtown Mistletoe Market was held in November of 2017. The holiday inspired, two day event at Bagby Park featured 26 craft/artisan vendors and was very well attended. For 2017 additional programming was brought in to increase event attendance and bolster vendor sales. The cost of the Mistletoe Market was \$33,233.
- The Cultural Arts and Entertainment Committee continues to use its 10-Year Cultural Arts Master Plan (2015-2024) for Midtown as an in-depth guide to strategic decision-making regarding cultural arts policies, programs, and projects in Midtown. Negotiations were completed in 2017 which allows the District to implement programming in Elizabeth Baldwin and Elizabeth Glover Parks. The Cultural Arts and Entertainment Committee will focus on culturally based programming. The District proposed an amendment to the existing Interlocal Agreements which would allow the District and the City to work cooperatively on scheduling events and activities in Elizabeth Baldwin and Elizabeth Glover Parks.

### 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 keeping with the mission of the community to continue to advocate for an urban, pedestrian and bike-friendly environment an additional B-cycle Station was installed at Elizabeth Baldwin Park bringing the total number of stations in Midtown to seven. The District's 2017 contribution toward the cost of funding provided to B-cycle station was \$8,800.
- The Board continues to partner with BikeHouston to provide a guided ride, bike maintenance workshop, and marketing to promote healthy and affordable transportation options. The cost of this project was \$250.

### Event Coordination and Participation

During the period from January 1, 2017 to December 31, 2017, the District coordinated and participated in the following events:

#### General

- Midtown Art in the Park – April 2017
- Mother's Day Market – May 2017
- Father's Day Market – June 2017
- 12 District Board of Director meetings of which four meetings are quarterly evening meetings and one of the four evening meetings is the Annual Board of Director's meeting (August 2017)

## Midtown Management District Management's Discussion and Analysis

### FINANCIAL HIGHLIGHTS (Continued)

- Midtown Mistletoe Market – November 2017
- Combined committee meetings
- Supported various Cultural Arts based parks programming

#### Public Safety Committee Meetings/Events

- 12 District Public Safety Committee meetings of which three of the committee meetings are quarterly evening meetings and one of the evening meetings being held on the District's annual National Night Out. The District was unable to host the annual National Night Out in 2017 due to inclement weather.
- Coffee with a Cop
- Quarterly Houston Police Department Citizens Advisory Panel – represented by Midtown staff
- HPD Chief's Citywide PIP meetings – represented by Board members, stakeholders and staff
- Monthly evening HPD South Central PIP – represented by Board members, stakeholders, staff
- Monthly evening HPD Central PIP - represented by Board members, stakeholders, staff

Approximately 72 committee meetings and 12 Board of Directors meetings were held in 2017. All meetings and events are open to the public.

### 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

### 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>	<b>2017</b>	2016	Increase (Decrease)
<b>Assets</b>			
Cash and cash equivalents	\$ 394,000	\$ 625,000	\$ (231,000)
Assessment receivables	2,058,000	1,870,000	188,000
Federal grant receivable	1,596,000	329,000	1,267,000
Prepaid expenses	55,000	65,000	(10,000)
Investments	1,018,000	736,000	282,000
<b>Total assets</b>	<b>5,121,000</b>	3,625,000	1,496,000
<b>Liabilities</b>			
	<b>2,076,000</b>	845,000	1,231,000
<b>Deferred inflows of resources</b>			
	<b>2,369,000</b>	2,324,000	45,000
<b>Net position - unrestricted</b>	<b>\$ 676,000</b>	\$ 456,000	220,000

Cash, cash equivalents and investments were held in money market accounts, certificates of deposit, and TexStar and Logic, local government investment pools, throughout the year. The fluctuation among categories is primarily due to maturity dates of certificates of deposits and additional funds held in local government investment pools.

At December 31, 2017, the District had a payable to the Authority totaling approximately \$1,596,000 for grant funds not received from the Federal Transit Administration (FTA) until 2018. The District passes through all FTA funds to the Authority in accordance with the grant agreement.

Liabilities also include a payable to the City of Houston (the City) for electricity costs for the period January through December totaling approximately \$253,000 and \$247,000, for the years ended December 31, 2017 and 2016, respectively. 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. Invoices from the City are typically received in March of each year for the previous year. As of May 2018, the City had not yet billed the District for 2017. The District accrued \$253,000 in anticipation of receiving this invoice.

## Midtown Management District Management's Discussion and Analysis

### OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Deferred inflows of resources relate to 2018 and 2017 assessments as of December 31, 2017 and 2016, respectively. Taxes levied on October 1 of calendar year 2016 and 2017 are recorded as accounts receivable and deferred revenue at date of the levy. All amounts are deferred until the following fiscal year.

Overall, there was no significant change in net position of the District's governmental activities from 2017 to 2016. The increase over 2016 was primarily due to the delay of some budgeted 2017 expenditures into 2018.

#### **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>	<b>2017</b>	2016	Increase (Decrease)
<b>Revenues</b>			
Assessments, net	\$ 2,249,000	\$ 2,025,000	\$ 224,000
Grant revenue	2,975,000	1,359,000	1,616,000
Interest and other revenues	29,000	16,000	13,000
<b>Total revenues</b>	<b>5,253,000</b>	3,400,000	1,853,000
<b>Expenses</b>			
Security and public safety	929,000	805,000	124,000
Marketing and economic development	83,000	43,000	40,000
Urban planning	31,000	15,000	16,000
Service and maintenance	525,000	490,000	35,000
Cultural arts and entertainment	143,000	111,000	32,000
District administration	347,000	538,000	(191,000)
Grant expense	2,975,000	1,333,000	1,642,000
<b>Total expenses</b>	<b>5,033,000</b>	3,335,000	1,698,000
<b>Change in net position</b>	<b>220,000</b>	65,000	155,000
<b>Net position - beginning of year</b>	<b>456,000</b>	391,000	65,000
<b>Net position - end of year</b>	<b>\$ 676,000</b>	\$ 456,000	220,000

## Midtown Management District Management's Discussion and Analysis

### 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>	<b>2017</b>	2016
Assessments collected	<b>\$ 2,195,000</b>	\$ 1,963,000
Delinquent collections, net of overpayments	<b>34,000</b>	42,000
Penalties and interest	<b>20,000</b>	20,000
<b>Net assessments</b>	<b>\$ 2,249,000</b>	<b>\$ 2,025,000</b>

The District's collection rate for each of the years ended December 31, 2017 and 2016 was 98% and 99%, respectively.

The District's ten year service plan, categorizes expenses into five committee areas, capital reserve for infrastructure replacement and administration. The five committee areas include: Public Safety which primarily includes contracted electricity costs for streetlights and payments under contracts for constables; Service and Maintenance which includes 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 which includes costs associated with producing stakeholder communications reports and the Midtown Cultural Arts Guide; Cultural Arts and Entertainment for arts programming and arts grant matching; and Urban Planning for B-cycle Station and special projects. For 2017, personnel costs and other consultant costs are included in administration expenses or allocated to the five committee areas based on estimates of time involved by personnel. For 2016, all personnel and consultant costs were included in administration expenses.

The District serves as the grant recipient of grant funds received from the 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. Eligible costs under the FTA grant award totaled \$2,974,912 and \$1,332,947 for the years ended December 31, 2017 and 2016, respectively.

#### ***Governmental Fund***

At the end of the current fiscal period, the District's governmental fund reported an ending fund balance of approximately \$613,000. 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 \$280,000, 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

### ***Capital Assets and Long-Term Debt***

As of December 31, 2017 and 2016, 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 2017. The District does not budget for Federal Transit Administration grant funds which are passed through to Midtown Redevelopment Authority and totaled \$2,974,912 for 2017.

### **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 2018, the Board approved an Interlocal Agreement with Harris County to continue to provide Deputy Constables to patrol the community at a cost of \$405,476. The contract with Harris County provides for the services of four (4) Deputy Constables and a supervising sergeant, for a total of five (5) deputies and extends through February 28, 2019, unless earlier terminated.

In January 2018, the Board of Directors approved an amended contract for an initial term of one (1) year with S.E.A.L. Security Solutions, LLC for additional patrol services. The program includes three licensed, bonded, and insured armed security officers who will patrol for approximately 80-hours a week with a DPS licensed K-9 unit. The S.E.A.L. officers will patrol the areas inside the District boundaries in marked Midtown Patrol Vehicles. S.E.A.L will continue to provide a dedicated hotline for use by Midtown residents and business owners to call for assistance or report suspicious activity. The S.E.A.L. officers will work cooperatively with law enforcement officers from Harris County and Houston Police Department. The cost is approximately \$16,640 per month.

The District plans to continue to maintain a Security Coordinator to coordinate the work of law enforcement and private security officers in Midtown. The Security Coordinator will also evaluate public safety needs in Midtown and make recommendations of best practices to enhance public safety.

The District will continue its commitment to continue to work with the City on its homeless initiatives. The District, along with the Downtown Management District will provide financial support for the PIT Team. The work of the PIT Team will be periodically reviewed by the Public Safety Committee.

## Midtown Management District Management's Discussion and Analysis

### **FUTURE PROJECTS (Continued)**

#### Service and Maintenance

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

The District continues to leverage its maintenance dollars by working cooperatively with the Authority and MPC to maintain public right of way improvements in Midtown.

The Committee will continue to encourage the installation and repair of sidewalks throughout the District,

The Committee plans to maintain SeeClickFix as a viable option for stakeholders to report maintenance issues.

The committee worked throughout 2017 to complete the design and permitting requirements at the City for certain maintenance and improvements in Elizabeth Glover Park caused by flooding in the area. Specifically, the lighting in Elizabeth Glover Park was damaged by flooding and needed to be replaced at a cost of \$6,500. Additionally the bark mulch dog run area was replaced with decomposed granite. The improvements to the dog run area began early in 2018 at an approximate cost of \$65,000.

#### Marketing and Economic Development

The Marketing and Economic Development Committee plans to continue to publish the newspaper (the "Midtown Buzz"). The Committee will also continue to improve and grow its social media presence and direct the design of collateral media as a means of promoting Midtown.

#### Cultural Arts and Entertainment

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

#### Urban Planning

The Urban Planning Committee will continue to develop projects and programs that encourage and enhance the walkability and pedestrian features of Midtown. The Committee will work to encourage developers to include pedestrian enhancements on their projects that are suitable for an urban community. The Committee will seek opportunities to provide input to the Authority, the City and the Texas Department of Transportation on their respective capital improvements projects in Midtown.





## Midtown Management District Management's Discussion and Analysis

### **FUTURE PROJECTS (Continued)**

The Committee is committed to continuing to partner with other organizations such as B-Cycle, BikeHouston and ZipCar to reduce Midtown's carbon footprint by encouraging and supporting sustainable design and alternative modes of transportation.

\* \* \* \* \*

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, 2017*

	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and cash equivalents	\$ 393,469	\$ -	\$ 393,469
Assessment receivables	2,058,248	-	2,058,248
Federal grant receivable	1,595,508	-	1,595,508
Prepaid expenses	55,262	-	55,262
Investments	1,018,232	-	1,018,232
<b>Total assets</b>	<b>\$ 5,120,719</b>	<b>-</b>	<b>5,120,719</b>
<b>Liabilities</b>			
Accounts payable	\$ 1,822,809	-	1,822,809
Accrued liabilities	253,380	-	253,380
<b>Total liabilities</b>	<b>2,076,189</b>	<b>-</b>	<b>2,076,189</b>
<b>Deferred inflows of resources</b>			
Deferred revenue	2,431,109	(62,186)	2,368,923
<b>Fund balances</b>			
Committed	330,000	(330,000)	-
Unassigned	283,421	(283,421)	-
<b>Total fund balances</b>	<b>613,421</b>	<b>(613,421)</b>	<b>-</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 5,120,719</b>	<b>-</b>	<b>-</b>
<b>Net position - unrestricted</b>		<b>\$ 675,607</b>	<b>\$ 675,607</b>
Total fund balance of governmental fund			\$ 613,421
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			62,186
<b>Net position of governmental activities</b>			<b>\$ 675,607</b>

*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, 2017*

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Assessments, net	\$ 2,232,986	\$ 15,721	\$ 2,248,707
Grant revenue	2,974,912	-	2,974,912
Interest and other revenues	29,063	-	29,063
<b>Total revenues</b>	<b>5,236,961</b>	<b>15,721</b>	<b>5,252,682</b>
<b>Expenditures/expenses</b>			
Security and public safety	929,387	-	929,387
Marketing and economic development	83,500	-	83,500
Urban planning	30,987	-	30,987
Service and maintenance	524,943	-	524,943
Cultural arts and entertainment	142,715	-	142,715
District administration	346,706	-	346,706
Grant expense	2,974,912	-	2,974,912
<b>Total expenditures/expenses</b>	<b>5,033,150</b>	<b>-</b>	<b>5,033,150</b>
Excess of expenditures over revenues	203,811	(203,811)	-
Change in net position	-	219,532	219,532
<b>Fund balance/net position</b>			
Beginning of year	409,610	46,465	456,075
End of year	\$ 613,421	\$ 62,186	\$ 675,607
Net change in fund balance of general fund			\$ 203,811
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			15,721
Change in net position of governmental activities			\$ 219,532

*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 economic development; urban planning; services and maintenance; cultural arts and entertainment; 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 economic development 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. Cultural arts and entertainment include arts programming and arts grant matching. 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, 2017.

**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, 2017.

## 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, 2017.

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)**

Investments of the District consist of Texas Short Term Asset Reserve Program (TexSTAR) and Local Government Investment Cooperative (LOGIC), both local government investment pools created under the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR and LOGIC are administered by First Southwest Asset Management, Inc. and JPMorgan Chase Asset Management, Inc. The fair value of TexSTAR and LOGIC is based on quoted market values of the underlying investments of the pool and/or fund. TexSTAR and LOGIC use amortized cost to value portfolio assets and follow the criteria for GASB Statement No. 79 for use of amortized cost.

#### ***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.

### **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 and LOGIC, investment pools; 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, 2017, the carrying amount of the District's deposits totaled \$260,523 and the bank balances totaled \$350,366. The District's funds were fully insured under FDIC limits or collateral at December 31, 2017.

**Midtown Management District**  
**Notes to Basic Financial Statements**

**NOTE 4: DEPOSITS AND INVESTMENTS (Continued)**

Cash and cash equivalents at December 31, 2017 consist of the following:

Bank deposits:	
Demand deposits	\$ 260,523
Cash and cash equivalents:	
Money market funds	132,946
<hr/>	
Total cash and cash equivalents	\$ 393,469
<hr/>	

**Investments**

As of December 31, 2017, 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	\$ 469,185	\$ 469,185	\$ -	\$ -	\$ -
Local government investment pools	549,047	549,047	-	-	-
<hr/>		<hr/>			
Total investments	\$ 1,018,232	\$ 1,018,232	\$ -	\$ -	\$ -
<hr/>		<hr/>			

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 and LOGIC, local government investment pools created under the Interlocal Cooperation Act, and are rated AAA by Standard and Poor's. Each investment pool maintains a weighted average maturity of 60 days or less, with a maximum weighted average maturity of 13 months for any individual security. The District considers the investments in TexSTAR and LOGIC to have maturities of less than one year due to the fact that the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.



## 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 \$294 per street light. As of December 31, 2017, approximately 840 street lights have been installed by the Authority and approximately \$253,000 has been accrued for related electricity costs owed to the City of Houston.

### NOTE 6: FUND BALANCE – GOVERNMENTAL FUND

As of December 31, 2017, 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	283,421
<hr/>	
Total fund balance	\$ 613,421

### 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 2016, 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 2017 tax year, the District levied an ad valorem assessment of \$0.1181 per \$100 of assessed valuation, resulting in an assessment of \$2,368,923 on the assessed valuation of \$2,005,861,245. As of December 31, 2017, \$372,861 of the 2017 assessment was collected. Revenue recognition for the 2017 assessment collections has been fully deferred to 2018.

## 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 \$373,000 for the year ended December 31, 2017. At December 31, 2017, approximately \$96,000 was payable to the Authority under this contract.

The District is the recipient for the Federal Transit Administration grant and passes all funds through to the Authority to manage the development and construction of the FTA funded project. At December 31, 2017, eligible costs totaling \$1,595,508 had been incurred by the Authority of which reimbursement had not yet been received from FTA. The amount due to the Authority is included in accounts payable in the accompanying basic financial statements.

The District's Executive Director and Board Chairman are also members of the Midtown Improvement and Development Corporation ("MIDCorp") Board of Directors. MIDCorp provided maintenance services and public improvements amounting to \$206,000 for the year ended December 31, 2017. (See Note 9)

#### ***Midtown Improvement and Development Corporation***

The District, the Authority and 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, 2017, the District remitted \$206,000 to MIDCorp in accordance with the terms of the agreement. In subsequent years, the District will contribute an amount equal to the prior year's contribution plus three percent (3%) for the Legacy Improvements. The agreement will be reviewed in calendar year 2018 and amended at that time if appropriate.



## Midtown Management District Notes to Basic Financial Statements

### **NOTE 9: COMMITMENTS**

#### ***Harris County Constables Agreement***

The District contracts with Harris County for Precinct 7 Deputy Constables to provide patrol services, online patrol alert filing, online vacation watch requests, event security for Midtown coordinated events, public safety education programs and information, as well as community crime statistical reports. The contract term of the Interlocal Agreement with Harris County for Law Enforcement Services expired on February 28, 2018 and was renewed for a one year term through February 28, 2019. The annual cost for five patrolling deputy constables and one supervising sergeant is approximately \$484,000.

#### ***Field Service Contract***

The District has a contract with Metropolitan Landscape Management, Inc. through December 31, 2018 to provide service and maintenance in public right-of-ways and maintain certain City-owned parks located in Midtown. These services include landscaping, mowing, weed eating, edging, mulching, irrigation system maintenance and repair, tree pruning, and seasonal planting. Services provided also include replacing Midtown logo street signs, debris removal, new tree planting, and other general maintenance of the public right-of-ways. The annual cost of these services is approximately \$203,000.

#### ***Other***

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, 2017*

	Original and Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance With Budget
<b>Revenues</b>			
Assessments, net	\$ 2,252,452	\$ 2,232,986	\$ (19,466)
Grant revenue (*)	-	2,974,912	2,974,912
Interest and other revenues	19,000	29,063	10,063
<b>Total revenues</b>	<b>2,271,452</b>	<b>5,236,961</b>	<b>2,965,509</b>
<b>Expenditures</b>			
Security and public safety	970,800	929,387	41,413
Marketing and economic development	107,206	83,500	23,706
Urban planning	89,580	30,987	58,593
Service and maintenance	593,338	524,943	68,395
Cultural arts and entertainment	178,500	142,715	35,785
District administration	332,028	346,706	(14,678)
Grant expense (*)	-	2,974,912	(2,974,912)
<b>Total expenditures</b>	<b>2,271,452</b>	<b>5,033,150</b>	<b>(2,761,698)</b>
Change in fund balance	-	203,811	203,811
Fund balance - beginning of year	409,610	409,610	-
<b>Fund balance - end of year</b>	<b>\$ 409,610</b>	<b>\$ 613,421</b>	<b>\$ 203,811</b>

(\*) The District does not budget for Federal Transit Administration grant funds which are passed through to Midtown Redevelopment Authority. Grant funds passed through to the Authority totaled \$2,974,912.

*See independent auditors' report.*



## Single Audit

**Midtown Management District  
Schedule of Expenditures of Federal Awards and  
Notes to Schedule of Expenditures of Federal Awards**

Federal or State Grantor/Pass-Through Grantor/Program title or Cluster Title	CFDA Number	Pass-through Grantors/Contract Number	Amount Provided to Subrecipients	2017 Expenditures
<b><i>Federal Transit Cluster</i></b>				
U.S. Department of Transportation Federal Transit Formula Grant	20.507	n/a	\$ 2,974,912	\$ 2,974,912
<b>Total Expenditures of Federal Awards</b>				<b>\$ 2,974,912</b>

**NOTE 1: BASIS OF PRESENTATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the Federal program fund expenditures of all Federal award programs of Midtown Management District (the District) for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the District's basic financial statements.

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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The District has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance. Additionally, the District did not receive any noncash assistance, federal loans, or federally funded insurance during the year ended December 31, 2017.

**NOTE 3: RELATIONSHIP TO FINANCIAL REPORTS SUBMITTED TO GRANTOR AGENCIES**

Amounts reflected in the financial reports filed with grantor agencies for the programs may not agree because of accruals included in the next report filed with the agencies, matching requirements not included in the Schedule of Expenditures of Federal Awards and different program year ends.

*See independent auditors' report.*

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Midtown Management District  
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of Midtown Management District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 6, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Midtown Management District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Carly Riggs & Ingram, L.L.C.*

Houston, Texas

June 6, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors  
Midtown Management District  
Houston, Texas

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

We have audited Midtown Management District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement*, that could have a direct and material effect on the District's major federal program for the year ended December 31, 2017. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, Midtown Management District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

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

Management of Midtown Management District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Cary Riggs & Ingram, L.L.C.*

Houston, Texas  
June 6, 2018

## Midtown Management District Schedule of Findings and Questioned Costs

### SECTION I: SUMMARY OF AUDITORS' RESULTS

#### **2017 Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_X\_\_\_ no
- Significant deficiencies identified? \_\_\_\_\_ yes \_\_\_X\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_ yes \_\_\_X\_\_\_ no

#### **2017 Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_X\_\_\_ no
- Significant deficiencies identified? \_\_\_\_\_ yes \_\_\_X\_\_\_ none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? \_\_\_\_\_ yes \_\_\_X\_\_\_ no

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.507	Federal Transit Formula Grant

Dollar threshold used to distinguish between Type A and type B programs:

Federal \$750,000

