

**El Paso Downtown Management District**  
Financial Statements and Required Supplementary Information  
For the Year Ended September 30, 2015  
and Independent Auditor's Report

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

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### **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors of  
El Paso Downtown Management District

We have audited the accompanying financial statements of the governmental activities of El Paso Downtown Management District, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the El Paso Downtown Management 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 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 of the El Paso Downtown Management District, as of September 30, 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 3-7, and 22 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2016 on our consideration of the El Paso Downtown 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 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 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 El Paso Downtown Management District's internal control over financial reporting and compliance.

Strickler & Prieto, LLP

February 3, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# **EL PASO DOWNTOWN MANAGEMENT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2015**

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Our discussion and analysis of the El Paso Downtown Management District's (the DMD) financial performance provides an overview of the DMD's financial activities for the fiscal year ended September 30, 2015.

## **FINANCIAL HIGHLIGHTS**

- The assets of the DMD exceeded its liabilities at the close of the most recent fiscal year by \$560,440. Of this amount, \$330,842 (unrestricted net position) may be used to meet the DMD's ongoing obligations.
- At the end of the fiscal year, the DMD had a decrease in net position of \$52,913 in the general fund.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the DMD's basic financial statements. The DMD's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** - The Statement of Net Position presents information on all of the DMD's assets and liabilities. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the DMD is improving or deteriorating.

The Statement of Activities includes all the revenue and expenses generated by the DMD's operations during the year. The accrual basis of accounting is used, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## **REPORTING THE DMD'S MOST SIGNIFICANT FUNDS**

The fund financial statements provide detailed information about the most significant funds, not the DMD as a whole. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The DMD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the DMD are combined in the governmental funds.

**Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the DMD's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the DMD's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

The DMD adopts an annual budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

**Notes to the financial statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **GOVERNMENT - WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the DMD, assets exceeded liabilities by \$560,440 at the close of the most recent fiscal year.

The largest portion of the DMD's net position is unrestricted. The DMD may use these assets to provide future services to the consumers as needed.

#### **El Paso Downtown Management DMD Statement of Net Position Government - Wide**

<b>Governmental Activities</b>	<b>2015</b>	<b>2014</b>
Current and other assets	\$ 634,523	\$ 707,344
Capital assets	<u>29,598</u>	<u>64,041</u>
Total assets	<u>664,121</u>	<u>771,385</u>
Current liabilities	<u>103,681</u>	<u>158,032</u>
Total liabilities	<u>103,681</u>	<u>158,032</u>
Net position:		
Net investment in capital assets	29,598	64,041
Restricted for facade program	200,000	-
Unrestricted	<u>330,842</u>	<u>549,312</u>
Total net position	<u>\$ 560,440</u>	<u>\$ 613,353</u>

## GOVERNMENTAL ACTIVITIES

Program revenues for the DMD's governmental activities were \$387,465, and general revenues were \$369,027 while total expenses were \$809,405.

Table 2 presents the cost of each program of the DMD. The net cost shows the DMD's reliance on the DMD's property tax revenue.

	<u>2015</u>	<u>2014</u>
Revenues		
Program revenues		
Charges for services	\$ 257,941	\$ 271,974
Operating grants and contributions	<u>129,524</u>	<u>410,407</u>
Subtotal	<u>387,465</u>	<u>682,381</u>
General revenues		
Property taxes	366,774	359,352
Investment earnings	1,056	793
Miscellaneous revenue	<u>1,197</u>	<u>330</u>
Subtotal	<u>369,027</u>	<u>360,475</u>
Total revenue	<u>756,492</u>	<u>1,042,856</u>
Expenses		
Administrative staff	286,364	293,282
Administrative office	67,910	63,018
Sanitation	202,573	193,879
Promotion and advertising	48,985	41,372
Community projects	188,120	316,922
Parking	4,273	5,682
Professional services	<u>11,180</u>	<u>48,949</u>
Total expenses	<u>809,405</u>	<u>963,104</u>
Increase (decrease) in net position	(52,913)	79,752
Beginning net position	<u>613,353</u>	<u>533,601</u>
Ending net position	<u>\$ 560,440</u>	<u>\$ 613,353</u>

## **FINANCIAL ANALYSIS OF THE DMD'S FUNDS**

Governmental funds - As the DMD completed the year, its governmental funds (as presented in the balance sheet) reported a fund balance of \$520,799, which is a decrease of \$20,160 .

The focus of the DMD's governmental funds is to provide information on near term inflows, outflows and balances of available resources. Such information is useful in assessing the DMD's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the only operating fund of the DMD. At the end of the current fiscal year, fund balance in the General Fund of \$320,799 was designated for working capital to cover ongoing operations. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. An analysis of significant balances follows:

- Tax revenues including penalties and interest decreased by 7%.
- Charges for services decreased 5% from the prior year.
- Grant revenue decreased \$283,000 due to the completion of the Wayfinding program.
- Administration staff expenses decreased \$6,900 from the prior year.
- Sanitation expenses increased \$9,900 from the prior year.
- Administration office increased \$1,100 from the prior year.
- Promotion and advertising increased \$7,600 from the prior year.
- Professional fees decreased \$37,000 from the prior year.
- Community projects decreased \$182,000 due to the completion of the Wayfinding program.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

At the end of the fiscal year, the DMD's actual revenues exceeded projected revenues by \$23,652. The significant variance in revenues resulted in an underestimation in tax revenue and grant revenue. There are five expenditures categories listed in the Budgetary Comparison Schedule that contain significant variances as identified by the DMD. These are as follows:

- Income from grants was \$11,836 under budget.
- Community projects expense was \$59,164 under budget. The Wayfinding community project was completed during the fiscal year 2015.
- Sanitation expense was 53,623 under budget.
- Promotion and advertising expense was \$25,015 under budget.

The significant variances listed above will not significantly impact future services or liquidity.

## **CAPITAL ASSETS**

*Capital Assets* - The DMD's investment in capital assets as of September 30, 2015 was \$29,598 (net of accumulated depreciation). This investment in capital assets includes equipment and vehicles.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The tax rate will remain at \$0.12 per \$100 valuation for the eighth consecutive year. The tax revenue is estimated to be \$389,361 for the fiscal year 2015-2016. The budget for the fiscal year 2015-2016, has a deficit of \$99,377 that will be paid for using available funds from the beginning of the year.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the EI Paso Downtown Management DMD's finances and the DMD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the EI Paso Downtown Management DMD's Finance Department, 201 E. Main, Suite 107, EI Paso, TX, 79901-1336.

## **BASIC FINANCIAL STATEMENTS**

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## STATEMENT OF NET POSITION SEPTEMBER 30, 2015

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	<u>Primary Government</u>
<b>ASSETS</b>	<u>Governmental Activities</u>
Current assets	
Cash and cash equivalents	\$ 480,746
Certificate of deposit	143,254
Property tax receivable	10,268
Other receivables	255
	<hr/>
Total current assets	634,523
Capital assets, net	<hr/> 29,598
<b>TOTAL ASSETS</b>	<hr/> <b>\$ 664,121</b> <hr/>
<b>LIABILITIES AND NET POSITION</b>	
Current liabilities	
Accounts payable	\$ 10,599
Accrued expenses	9,166
Unearned revenue - facade program	83,916
	<hr/>
Total current liabilities	103,681
Net position	
Net investment in capital assets	29,598
Restricted for facade program	200,000
Unrestricted net position	330,842
	<hr/>
Total net position	560,440
<b>TOTAL LIABILITIES AND NET POSITION</b>	<hr/> <b>\$ 664,121</b> <hr/>

See accompanying notes to financial statements.

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Expenses</u>	<u>Charges for Service</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>
			<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government:				
Government Activities:				
Administrative staff	\$ 286,364	\$ -	\$ -	\$ (286,364)
Administrative office	67,910	-	-	(67,910)
Sanitation	202,573	222,275	-	19,702
Promoting and advertising	48,985	-	-	(48,985)
Community projects	188,120	35,666	129,524	(22,930)
Parking	4,273	-	-	(4,273)
Professional fees	11,180	-	-	(11,180)
	<u>809,405</u>	<u>257,941</u>	<u>129,524</u>	<u>421,940</u>
Total governmental activities	<u>809,405</u>	<u>257,941</u>	<u>129,524</u>	<u>421,940</u>
Total primary government	<u>809,405</u>	<u>257,941</u>	<u>129,524</u>	<u>421,940</u>
General revenues:				
Property taxes, levied for general purposes				366,774
Investment earnings				1,056
Miscellaneous revenue				<u>1,197</u>
Total general revenues				<u>369,027</u>
Change in net position				(52,913)
Net position, beginning of year				<u>613,353</u>
Net position, end of year				<u>\$ 560,440</u>

See accompanying notes to financial statements.

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Facade Program</u>	<u>Total Government Funds</u>
<b>ASSETS</b>			
Cash	\$ 480,746	\$ -	\$ 480,746
Certificate of deposit	143,254	-	143,254
Property tax receivable	10,268	-	10,268
Due from other funds	-	83,916	83,916
Other receivables	255	-	255
	<u>634,523</u>	<u>83,916</u>	<u>718,439</u>
Total assets	<u>\$ 634,523</u>	<u>\$ 83,916</u>	<u>\$ 718,439</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 10,599	\$ -	\$ 10,599
Accrued expenses	9,166	-	9,166
Due to other funds	83,916	-	83,916
Unearned revenue	-	83,916	83,916
	<u>103,681</u>	<u>83,916</u>	<u>187,597</u>
Total liabilities	<u>103,681</u>	<u>83,916</u>	<u>187,597</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	10,043	-	10,043
	<u>10,043</u>	<u>-</u>	<u>10,043</u>
Total deferred inflows of resources	<u>10,043</u>	<u>-</u>	<u>10,043</u>
<b>FUND BALANCE</b>			
Fund Balance:			
Assigned to facade program	50,000	-	50,000
Restricted to facade program	150,000	-	150,000
Unassigned	320,799	-	320,799
	<u>520,799</u>	<u>-</u>	<u>520,799</u>
Total fund balance	<u>520,799</u>	<u>-</u>	<u>520,799</u>
Total liabilities and fund balance	<u>\$ 634,523</u>	<u>\$ 83,916</u>	<u>\$ 718,439</u>

See accompanying notes to financial statements.

## EL PASO DOWNTOWN MANAGEMENT DISTRICT

### RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION SEPTEMBER 30, 2015

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Total Fund Balance - Governmental Fund \$ 520,799

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of including the balances for capital assets (net of depreciation) activities is to increase net position. 29,598

Recognition of unavailable tax revenue as revenue 10,043

Net Position of Governmental Activities \$ 560,440

See accompanying notes to financial statements.

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Facade Program	Total Government Funds
Revenues:			
Taxes (ad valorem)	\$ 365,084	\$ -	\$ 365,084
Charges for services	257,941	-	257,941
Grant	14,464	115,060	129,524
Interest income	1,056	-	1,056
Miscellaneous revenue	1,197	-	1,197
Other	-	-	-
Total revenues	<u>639,742</u>	<u>115,060</u>	<u>754,802</u>
Expenditures:			
Sanitation	197,077	-	197,077
Administrative staff	286,364	-	286,364
Promotion and advertising	48,985	-	48,985
Administrative office	64,838	-	64,838
Community projects	47,185	115,060	162,245
Parking	4,273	-	4,273
Professional fees	11,180	-	11,180
Total expenditures	<u>659,902</u>	<u>115,060</u>	<u>774,962</u>
Net change in fund balance	(20,160)	-	(20,160)
Fund balance, October 1, 2014	<u>540,959</u>	<u>-</u>	<u>540,959</u>
Fund balance, September 30, 2015	<u>\$ 520,799</u>	<u>\$ -</u>	<u>\$ 520,799</u>

See accompanying notes to financial statements.

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2015

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Total Net Change in Fund Balance - Governmental Fund \$ (20,160)

The effect of including the change in unavailable tax revenue of 2015  
is to decrease in net position. 1,690

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of certain capital outlays is  
allocated over the estimated useful lives of the assets acquired and  
reported as depreciation expense. As a result, fund balance decreased  
by the amount of financial resources expended, whereas net position  
decreased by the amount of depreciation expense charged for the  
year:

Capital Outlay	8,895	
Depreciation	(6,456)	
Disposal of capital assets not recorded in governmental funds	<u>(36,882)</u>	<u>(34,443)</u>

Change in Net Position of Governmental Activities \$ (52,913)

See accompanying notes to financial statements.

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2015

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the El Paso Downtown Management District, (the "DMD") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the government's accounting policies are described below.

**Reporting Entity**—The DMD was created pursuant to the Tex. Loc. Gov't Code Ann. 375.022 with a primary focus to make Downtown El Paso the center of commercial, civic and cultural activity. By mobilizing resources and affecting positive growth and change within the district, the DMD is committed to the revitalization of a vibrant Downtown El Paso.

The DMD was created in March of 1997 and funded by assessment revenue from property within the district and through collaboration on specific projects and programs with the City of El Paso.

**Government-Wide and Fund Financial Statements**—The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the DMD's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State funds, grants, and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the DMD operates have shared in the payment of direct costs. The "grants and contributions" column includes amounts paid by organizations outside the DMD to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the DMD's functions. Taxes are always general revenues.

The fund financial statements provide reports on the financial condition and result of operations for the governmental fund category.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**—The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, deferred inflows of resources and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable. The DMD considers all revenues available if they are collectible within 60 days after year end.

Investment earnings are recorded as earned, since they are both measurable and available.

Unavailable revenue from property taxes arises only under modified accrual basis of accounting. The governmental funds report this unavailable revenue as deferred inflow of resources, which is recognized revenue in the period that the amounts become available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors might require the DMD to refund all or part of the unused amount.

#### ***Net Position on the Statement of Net Position***

*Net Investment in Capital Assets*—Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt will be included in this component of net position.

*Restricted for facade*—Represents amounts restricted specifically for use in the facade program which encourages downtown property owners to update the facade on their buildings.

*Unrestricted Net Position*—this component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

***Fund Accounting***—The District reports the following major governmental funds:

*The General Fund*—The general fund is the DMD's primary operating fund.

*The Facade Program Fund*—The facade program fund's primary purpose to encourage downtown property owners to update the facade on their buildings. The program was established by an interlocal agreement with the City of El Paso and it jointly funded by the City and the DMD.

***Fund Balance***—DMD reports the following fund balance categories which describe the nature and the relative strength of the spending constraints:

*Nonspendable fund balance* - Represents amounts that are not in spendable form, such as inventory, or are required to be maintained intact.

*Restricted fund balance*—Represents amounts constrained to specific purposes by their providers, such as grantors, bondholders, and higher levels of government, through constitutional provisions, or by enabling legislation.

*Committed fund balance*—Represents amounts constrained to specific purposes by the DMD itself, using its highest level of decision-making authority, i.e., Board of Directors. To be reported as committed, amounts cannot be used for any other purpose unless the DMD's Board of Directors approves the changes by Board Resolution.

*Assigned fund balance*—Represents amounts the District intends to use for a specific purpose. Intent can be expressed by the DMD Board of Directors.

*Unassigned fund balance*—Represents amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as commitments of the fund. Assigned fund balance is established by the Board of Directors.

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

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

***Stewardship, Compliance and Accountability***—The DMD follows these procedures in establishing the budgetary data for the General fund which are reflected in the financial statements:

- Budgeted amounts are as originally adopted or as amended by the Board of Directors.
- Individual amendments were not material in relation to the original appropriations.
- Capital expenditures were not budgeted.

***Cash and Cash Equivalents***—The funds of the DMD must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The DMD considers cash and cash equivalents to be demand deposit accounts and time deposits with a maturity date of less than 90 days. The DMD's cash consists of a demand deposit account held at a financial institution and time deposits at other financial institutions.

**Investments**—The *Public Funds Investment Act* (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the DMD to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the DMD to have independent auditors perform test procedures related to investment practices as provided by the Act. The DMD is in substantial compliance with the requirements of the Act and with local policies.

DMD invests in authorized investment pools. Investments are carried at fair market value.

Additional policies and contractual provisions governing deposits and investments for DMD are specified below:

Custodial Credit Risk :

*Deposits*— State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

*Temporary Investments*—To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent.

**Foreign Currency Risk:**

*Deposits* - The DMD eliminates the risk that changes in exchange rates will adversely affect a deposit by not having any deposits or investments denominated in a foreign currency.

*Temporary Investments* - The DMD eliminates the risk that changes in exchange rates will adversely affect the fair value of an investment by avoiding investment pools which are denominated in a foreign currency.

***Credit Risk:***

*Deposits* - The DMD is not exposed to credit risk.

*Temporary Investments* - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in public funds investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs).

***Concentration of Credit Risk:***

*Deposits* - The DMD is not exposed to concentration of credit risk.

*Temporary Investments* - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. Concentration of Credit Risk is not applicable to these investment pools since the purpose of these pools and funds is to diversify the District's investment portfolio.

***Interest Rate Risk:***

*Deposits* - The DMD is not exposed to interest rate risk.

*Temporary Investments* - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires its investment portfolio to have maturities of less than one year on a weighted average maturity (W AM) basis. The District's portfolio is in compliance with its policy. All of the District's investment pools qualify as 2a7-like pools and are excluded

***Capital Assets***—The DMD defines capital assets as assets that have an initial individual cost of more than \$1,000 and an estimated useful life of more than two years. Additions are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation is calculated using the straight line method over the estimated useful life of the assets. Vehicles and heavy equipment are depreciated over seven years and other equipment is depreciated over five years.

***Deferred Inflows of Resources-Deferred Revenues***—Within the government-wide financial statements, deferred revenues represent unearned revenues advanced to the DMD. Such advances are reported as deferred revenue until the earnings process is complete. Deferred revenues may include grants received reflected as a receivable but not recognized as revenues since all criteria have not been met. Within the governmental funds, revenues must be available in order to be recognized.

***Property Tax Receivable***—The unpaid amounts due on property taxes are shown as property tax receivable. No allowance for uncollectible accounts is maintained as accounts are written off when they are determined to be uncollectible. Generally accepted accounting principles require that an allowance for uncollectible accounts be maintained in lieu of the direct charge-off method. However, in this case management has determined that such an allowance would be immaterial with respect to the financial statements taken as a whole.

**Interfund Balances**—The interfund balances are a result of normal operations and are cleared out periodically. Management intends to payout these balances within one year.

**Use of Estimates**—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

**Subsequent Events**—Management has evaluated subsequent events through February 3, 2016, the date the financial statements were available to be issued.

## 2. CASH AND INVESTMENTS

The DMD maintains cash in three financial institutions. At September 30, 2015 the carrying amount of the DMD's deposits (cash) was \$480,746, and the bank balance was \$546,250.

**Custodial Credit Risk**—Custodial credit risk is the risk that, in the event of a bank failure The DMD deposits may not be returned to it. The DMD investment policy for custodial credit risk requires financial institutions that hold deposits in excess of the federal depository insurance (FDIC) insured amount will be required to sign a depository agreement with the DMD's safekeeping agent. As of September 30, 2015, the DMD's deposits were insured by the the FDIC or collateralized by securities held in trust by a third-party bank for the depository bank in the DMD's name and thus was not exposed to custodial credit risk.

**Investments**—The DMD's temporary investments as of September 30, 2015 were as follows:

	<b>Carrying Value</b>	<b>Market Value</b>
Certificate of Deposit	\$ 143,254	\$ 143,254
	<u>\$ 143,254</u>	<u>\$ 143,254</u>

## 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015 was as follows:

	<b>Balance at 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at 2015</b>
Capital assets, being depreciated:				
Furniture and equipment	\$ 213,070	\$ 8,895	\$ (37,406)	\$ 184,559
Less accumulated depreciation for:				
Furniture and equipment	149,029	6,456	(524)	154,961
	<u>\$ 64,041</u>	<u>\$ 2,439</u>	<u>\$ (36,882)</u>	<u>\$ 29,598</u>

Depreciation expense for the year ended September 30, 2015 was charged to functions (programs) as follows:

Sanitation	\$	5,496
Community Projects		324
Administrative		636
		<hr/>
	\$	6,456
		<hr/>

**4. PROPERTY TAX**

*Levy and Collection*—Property is appraised and a lien on such appraised property becomes enforceable as of January 1, subject to certain established procedures relating to rendition, appraisal, appraisal review and judicial review. Property taxes are levied on October 1 of each year and are due and payable at that time. Taxes becomes delinquent on February 1, of the following year and are then subject to interest and penalty charges.

On October 1, 2014, property taxes of approximately \$363,679 were levied for the general fund. These revenues were budgeted for and recorded in fiscal year 2015.

**5. COMMITMENTS AND CONTINGENCIES**

*Operating Leases*—In January 2013, the DMD entered into a three year lease for office space which expired in December 2015. The DMD renewed the office lease in December 2015, and extended its terms to five years. The lease calls for monthly payments of \$2,278 the first, second and third year, and \$2,373 for the fourth and fifth year. The lease expires on December 31, 2020.

In May 2014, the DMD entered into a 39 month lease for a copy machine. The lease term calls for monthly payments of \$236 and expires in July 2017.

Future minimum payments under the operating leases are as follows:

September 30, 2016	\$	30,168
September 30, 2017		29,696
September 30, 2018		27,336
September 30, 2019		28,190
Thereafter		35,594
		<hr/>
	\$	150,984
		<hr/>

Rent expense under these operating leases for the year ended September 30, 2015 amounted to \$29,571.

***Risk Management***—The DMD is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, workers compensation; and natural disasters. The Board maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, dishonesty, errors and omissions, boiler and machinery, personal property and general liability. There have been no significant reductions in insurance coverage from prior years and settlements did not exceed insurance coverage for each of the past three years.

***Litigation***—During the normal course of business, the DMD may be subject to various legal claims. As of September 30, 2015, administration is not aware of any claims which would have a material adverse effect on the DMD.

***Commitments***—The DMD has a five year contract for graffiti eradication and sanitation services. The DMD has agreed to pay the sum of \$136,279 for one year salary and fringe benefits, to include longevity and worker's compensation for three employees. The DMD will be billed monthly at the end of each month for salaries, cell phones and vehicle fuel used in the prior month. The agreement ends on September 30, 2016. The agreement may be terminated by either party on September 30 of each calendar year to the end agreement date by providing notice of termination.

## **6. UNEARNED REVENUE**

Facade grant income received but not yet spent is considered to be deferred revenue until the money is spent.

## **7. RELATED PARTY TRANSACTIONS**

The DMD maintains three bank accounts at a financial institution which one board member is employed.

The DMD rents its office space from an organization that employs one of the board members. Annual rent paid during the year was \$26,767.

The DMD paid \$4,346 to a company owned by a board member for professional advertising services.

The DMD entered into agreements with three board members for street pole banner and kiosk panel rentals. Total amount received for these services was \$17,236.

The DMD paid \$55,842 for Facade renovations to properties owned by business that employ three of the board members.

The Board of Directors is aware of the abovementioned transactions and believes all transactions with Board members are "arm's length" transactions.

**REQUIRED SUPPLEMENTARY INFORMATION**

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## BUDGETARY COMPARISON SCHEDULE GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget Positive or (Negative)
Revenues:				
Taxes (ad valorem)	\$ 348,955	\$ 348,955	\$ 365,084	\$ 16,129
Interest income	835	835	1,056	221
Charges for services	240,000	240,000	257,941	17,941
Grants	26,300	26,300	14,464	(11,836)
Miscellaneous revenue	-	-	1,197	1,197
Total revenues	616,090	616,090	639,742	23,652
Expenditures:				
Administrative staff	304,000	304,000	286,364	17,636
Parking and transportation	6,000	6,000	4,273	1,727
Contracted services	17,000	17,000	11,180	5,820
Administration - office	64,800	64,800	64,838	(38)
Community projects	73,000	73,000	13,836	59,164
Security	48,000	48,000	33,349	14,651
Sanitation	250,700	250,700	197,077	53,623
Promoting and advertising	74,000	74,000	48,985	25,015
Total expenditures	837,500	837,500	659,902	177,598
Excess of revenue over (under) expenditures	\$ (221,410)	\$ (221,410)	\$ (20,160)	\$ (153,946)



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**INDEPENDENT AUDITOR'S 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***

The Board of Directors  
El Paso Downtown Management District

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 government activities of El Paso Downtown Management District, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the El Paso Downtown Management District's basic financial statements, and have issued our report thereon dated February 3, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered El Paso Downtown 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 entity'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 El Paso Downtown Management District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 *Governments 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.

*Strickler & Pinto, LLP*

El Paso, Texas  
February 3, 2016