



201 E. Main, Suite 500
El Paso, Texas 79901
Tel. (915) 532-2901
Fax (915) 532-0807
www.cpa-sp.com

January 5, 2018

Board of Directors
El Paso Downtown District Management
201 East Main Street, Suite 107
El Paso, Texas 79901

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of El Paso Downtown Management District (the DMD) for the year ended September 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 14, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the DMD are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the DMD during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the DMD's financial statements was:

Management's estimate of the useful lives of capital assets is based on the DMD's estimate of the actual life of each asset. We evaluated the key factors and assumptions used to develop the estimate for the useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of related party transactions in Note 6 to the financial statements provides detail on the amount and type of related party transactions and the effects of the transactions on the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Audit procedures detected misstatements related to deferred revenue - management has posted the appropriate correcting journal entries.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 5, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the DMD's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the DMD's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Status of Prior Year Findings

- Reconciliation of Façade program worksheet **Resolved**

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and the Budgetary Comparison Schedule – General Fund, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the DMD and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Strickler & Prieto, LLP

Strickler & Prieto, LLP

El Paso Downtown Management District
Financial Statements and Required Supplementary Information
For the Year Ended September 30, 2017
and Independent Auditor's Report

EL PASO DOWNTOWN MANAGEMENT DISTRICT

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Strickler & Prieto, LLP

201 E. Main, Suite 500

El Paso, Texas 79901

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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, 2017, 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, 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 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 January 5, 2018 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

January 5, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

EL PASO DOWNTOWN MANAGEMENT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2017

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, 2017.

OPERATIONAL HIGHLIGHTS

During the fiscal year ended September 30, 2017, the Downtown Management District developed and implemented several projects, programs and services to further its mission and to further strengthen downtown El Paso as the heart of the city.

- Additional grant programs and incentives went into effect in January 2017 to support private sector investment in the appearance of their properties. The new programs included the Iconic Signage and Lighting Grant Program, the Mural Grant Program and the Pedestrian Amenities Grant Program. The existing Commercial Façade Improvement Program was enhanced with richer incentives for projects along El Paso Street and the street car route. The TIRZ #5 continued its support of the Façade program and increased its contribution to support the Iconic Signage and Lighting Grant Program.
- The marketing and promotion of downtown El Paso took a major shift from the traditional use of text and graphics, to the use of high quality video. This form of communication allows downtown El Paso and its people to be highlighted in ways never seen before. Video has been used to highlight new businesses, capture the excitement of local events, and promote the efforts of the Downtown Management District.
- Recognizing that events provide a primary reason for many people to visit downtown El Paso, and building off the success of the DMD's established promotional activities, the DMD established a series of ticketed events to highlight the downtown's assets and experiences. The Downtown Living Tour attracted hundreds of people downtown to explore new, market rate residential living. The Eat Authentico Restaurant Crawl took participants on a 5-course walking tour with stops at five amazing downtown restaurants. Planning began for the Running of the Bulls 5K Run / Walk and the Barstool Open.

These events attracted sponsorships, generated ticket revenue, attracted hundreds of people downtown, and most importantly, highlighted many facets of downtown not typically experienced.

- In line with the organizations 2016-1018 Strategic Plan, the DMD Board created the Downtown Power Hour Luncheon to facilitate stakeholder engagement and to discuss important topics of the day. The quarterly luncheons brought together a wide variety of guests and generated great input for DMD Board Members.
- Toward the end of the fiscal year, the Downtown Management District Board pledged its support to a new network of social service providers and a program dedicated to assisting El Paso's homeless population. The Homeless Outreach Coalition was established to bring

service providers together and to perform outreach to those living on the streets. This new program will provide a needed service within downtown El Paso and free up police resources for more urgent needs.

- This fiscal year was the first full year of employment for the Sanitation Program under the DMD. This transition allowed for greater flexibility and effectiveness of the crews. The savings achieved through the transition allowed for the DMD to maintain a fourth part-time supervisor to handle special projects and maintain full-time staffing levels throughout the year.

FINANCIAL HIGHLIGHTS

- The assets of the DMD exceeded its liabilities at the close of the most recent fiscal year by \$499,148. Of this amount, \$346,449 (unrestricted net position) may be used to meet the DMD's ongoing obligations.
- At the end of the fiscal year, the DMD had an increase in net position of \$49,213 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 \$499,148 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

<u>Governmental Activities</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 781,975	\$ 593,268
Capital assets	<u>57,968</u>	<u>67,064</u>
Total assets	<u>839,943</u>	<u>660,332</u>
Current liabilities	<u>340,795</u>	<u>210,397</u>
Total liabilities	<u>340,795</u>	<u>210,397</u>
Net position:		
Net investment in capital assets	57,968	67,064
Restricted for facade program	94,731	70,280
Unrestricted	<u>346,449</u>	<u>312,591</u>
Total net position	<u>\$ 499,148</u>	<u>\$ 449,935</u>

GOVERNMENTAL ACTIVITIES

Program revenues for the DMD's governmental activities were \$378,250, and general revenues were \$464,120, while total expenses were \$793,157.

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>2017</u>	<u>2016</u>
Revenues		
Program revenues		
Charges for services	\$ 275,387	\$ 254,286
Operating grants and contributions	<u>102,863</u>	<u>36,541</u>
Subtotal	<u>378,250</u>	<u>290,827</u>
General revenues		
Property taxes	461,571	411,300
Investment earnings	2,549	2,154
Miscellaneous revenue	<u>-</u>	<u>191</u>
Subtotal	<u>464,120</u>	<u>413,645</u>
Total revenue	<u>842,370</u>	<u>704,472</u>
Expenses		
Administrative staff	311,194	300,889
Administrative office	77,695	59,679
Sanitation	191,684	187,128
Promotion and advertising	23,944	32,323
Community projects	173,655	80,670
Parking	3,840	3,900
Professional services	<u>11,145</u>	<u>8,452</u>
Total expenses	<u>793,157</u>	<u>673,041</u>
Increase (decrease) in net position	49,213	31,431
Beginning net position	<u>449,935</u>	<u>418,504</u>
Ending net position	<u>\$ 499,148</u>	<u>\$ 449,935</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 \$411,450, which is an increase of \$36,565.

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 \$316,719 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 increased by 6%.
- Charges for services increased 8% from the prior year.
- Grant revenue increased \$66,322; TIRZ5 funding was not received for fiscal year 2016.
- Administration staff expenses increased \$10,305 from the prior year.
- Sanitation expenses decreased \$42,733 from the prior year.
- Administration office increased \$18,742 from the prior year.
- Promotion and advertising decreased \$8,379 from the prior year.
- Professional fees increased \$2,693 from the prior year.
- Community projects increased \$92,985; TIRZ5 funding was not received for fiscal year 2016.

GENERAL FUND BUDGETARY HIGHLIGHTS

At the end of the fiscal year, the DMD's actual revenues exceeded projected revenues by \$82,566. There are four categories listed in the Budgetary Comparison Schedule that contain significant variances as identified by the DMD. These are as follows:

- Administrative staff expense was \$9,820 less than expected.
- Community projects expense was \$28,869 over budget; the District inaugurated new community events during fiscal year 2017.

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, 2017 was \$57,968 (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 tenth consecutive year. The tax revenue is estimated to be \$377,034 for the fiscal year 2017-2018. The budget for the fiscal year 2017-2018, has a deficit of \$63,271 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, 2017

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 551,218
Certificate of deposit	144,307
Property tax receivable	81,100
Other receivables	<u>5,350</u>
Total current assets	781,975
Capital assets, net	<u>57,968</u>
TOTAL ASSETS	<u>\$ 839,943</u>
LIABILITIES AND NET POSITION	
Current liabilities	
Accrued expenses	\$ 25,187
Grants payable - facade program	164,905
Unearned revenue - facade program	<u>150,703</u>
Total current liabilities	340,795
Net position	
Net investment in capital assets	57,968
Restricted for facade program	94,731
Unrestricted net position	<u>346,449</u>
Total net position	<u>499,148</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 839,943</u>

See accompanying notes to financial statements.

EL PASO DOWNTOWN MANAGEMENT DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>
					<u>Governmental Activities</u>
Primary Government:					
Government Activities:					
Administrative staff	\$ 311,194	\$ -	\$ -		\$ (311,194)
Administrative office	77,695	-	-		(77,695)
Sanitation	191,684	232,500	-		40,816
Promoting and advertising	23,944	-	-		(23,944)
Community projects	173,655	42,887	102,863		(27,905)
Parking	3,840	-	-		(3,840)
Professional fees	11,145	-	-		(11,145)
	<u>793,157</u>	<u>275,387</u>	<u>102,863</u>		<u>414,907</u>
Total governmental activities					
	<u>793,157</u>	<u>275,387</u>	<u>102,863</u>		<u>414,907</u>
General revenues:					
Property taxes, levied for general purposes					461,571
Investment earnings					2,549
					<u>464,120</u>
Total general revenues					
					49,213
Change in net position					
Net position, beginning of year					<u>449,935</u>
Net position, end of year					<u>\$ 499,148</u>

See accompanying notes to financial statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

EL PASO DOWNTOWN MANAGEMENT DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Facade Program</u>	<u>Total Government Funds</u>
ASSETS			
Cash	\$ 140,879	\$ 410,339	\$ 551,218
Certificate of deposit	144,307	-	144,307
Property tax receivable	81,100	-	81,100
Other receivables	5,350	-	5,350
	<hr/>	<hr/>	<hr/>
Total assets	\$ 371,636	\$ 410,339	\$ 781,975
LIABILITIES			
Accrued expenses	\$ 25,187	\$ -	\$ 25,187
Grants payable - facade program	-	164,905	164,905
Unearned revenue - facade program	-	75,703	75,703
	<hr/>	<hr/>	<hr/>
Total liabilities	25,187	240,608	265,795
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	29,730	-	29,730
Unavailable revenue - facade program	-	75,000	75,000
	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	29,730	75,000	104,730
FUND BALANCES			
Assigned to facade program	-	94,731	94,731
Unassigned	316,719	-	316,719
	<hr/>	<hr/>	<hr/>
Total fund balances	316,719	94,731	411,450
	<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflows, and fund balances	\$ 371,636	\$ 410,339	\$ 781,975

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, 2017

Total Fund Balances - Governmental Fund	\$ 411,450
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.	57,968
Recognition of unavailable tax revenue as revenue	<u>29,730</u>
Net Position of Governmental Activities	<u>\$ 499,148</u>

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, 2017

	General Fund	Facade Program	Total Government Funds
Revenues:			
Taxes (ad valorem)	\$ 439,827	\$ -	\$ 439,827
Charges for services	275,387	-	275,387
Grant	27,863	75,000	102,863
Interest income	1,372	1,177	2,549
	<u>744,449</u>	<u>76,177</u>	<u>820,626</u>
Expenditures:			
Sanitation	183,282	-	183,282
Administrative staff	311,194	-	311,194
Promotion and advertising	23,944	-	23,944
Administrative office	77,001	-	77,001
Community projects	71,929	101,726	173,655
Parking	3,840	-	3,840
Professional fees	11,145	-	11,145
	<u>682,335</u>	<u>101,726</u>	<u>784,061</u>
Other financing sources (uses):			
Transfers in	-	50,000	50,000
Transfers out	(50,000)	-	(50,000)
	<u>(50,000)</u>	<u>50,000</u>	<u>-</u>
Net change in fund balances	12,114	24,451	36,565
Fund balances, October 1, 2016	<u>304,605</u>	<u>70,280</u>	<u>374,885</u>
Fund balances, September 30, 2017	<u>\$ 316,719</u>	<u>\$ 94,731</u>	<u>\$ 411,450</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, 2017

Total Net Change in Fund Balance - Governmental Fund \$ 36,565

The effect of including the change in unavailable tax revenue of 2017
is to decrease net position. 21,744

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	5,114	
Depreciation	<u>(14,210)</u>	<u>(9,096)</u>

Change in Net Position of Governmental Activities \$ 49,213

See accompanying notes to financial statements.

EL PASO DOWNTOWN MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 (WAM) 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 January 5, 2018, 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, 2017 the carrying amount of the DMD's deposits (cash) was \$568,492, and the bank balance was \$551,218.

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, 2017, 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, 2017 were as follows:

	Carrying Value	Market Value
Certificate of Deposit	\$ 144,307	\$ 144,307
	<u>\$ 144,307</u>	<u>\$ 144,307</u>

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Balance at 2016	Additions	Disposals	Balance at 2017
Capital assets, being depreciated:				
Furniture and equipment	\$ 224,595	\$ 5,114	\$ -	\$ 229,709
Less accumulated depreciation for:				
Furniture and equipment	<u>157,531</u>	<u>14,210</u>	<u>-</u>	<u>171,741</u>
	<u>\$ 67,064</u>	<u>\$ (9,096)</u>	<u>\$ -</u>	<u>\$ 57,968</u>

Depreciation expense for the year ended September 30, 2017 was charged to functions (programs) as follows:

Sanitation	\$ 13,516
Administrative	694
	<hr/>
	\$ 14,210
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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, 2016, property taxes of approximately \$421,985 were levied for the general fund. These revenues were budgeted for and recorded in fiscal year 2017.

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 February 2017, the DMD entered into a 48 month lease for a copy machine. The lease term calls for monthly payments of \$299 and expires in January 2021.

Future minimum payments under the operating leases are as follows:

September 30, 2018	\$ 30,928
September 30, 2019	31,782
September 30, 2020	32,067
September 30, 2021	8,316
	<hr/>
	\$ 103,093
	<hr/>

Rent expense under these operating leases for the year ended September 30, 2017 amounted to \$31,021.

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 carries 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, 2017, administration is not aware of any claims which would have a material adverse effect on the DMD.

6. 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 \$27,710.

The DMD entered into agreements with two board members for street pole banners and the mural grant program. Total amount received for these services was \$16,901.

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

REQUIRESUPPLEMENTARY INFORMATION

EL PASO DOWNTOWN MANAGEMENT DISTRICT

BUDGETARY COMPARISON SCHEDULE GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget Positive or (Negative)
Revenues:				
Taxes (ad valorem)	\$ 386,238	\$ 386,238	\$ 439,827	\$ 53,589
Interest income	1,857	1,857	1,372	(485)
Charges for services	228,600	228,600	275,387	46,787
Grants	38,780	38,780	27,863	(10,917)
Miscellaneous revenue	6,408	6,408	-	(6,408)
Total revenues	661,883	661,883	744,449	82,566
Expenditures:				
Administrative staff	321,014	321,014	311,194	9,820
Parking and transportation	29,300	29,300	3,840	25,460
Contracted services	9,500	9,500	11,145	(1,645)
Administration - office	76,166	76,166	77,001	(835)
Community projects	19,000	19,000	47,869	(28,869)
Security	22,500	22,500	24,060	(1,560)
Sanitation	167,500	167,500	183,282	(15,782)
Promoting and advertising	48,800	48,800	23,944	24,856
Total expenditures	693,780	693,780	682,335	11,445
Excess of revenue over (under) expenditures	(31,897)	(31,897)	62,114	94,011
Other financing sources (uses):				
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	(50,000)	(50,000)	(50,000)	-
Net change in fund balance	\$ (81,897)	\$ (81,897)	\$ 12,114	\$ 94,011



Strickler & Prieto, LLP

201 E. Main, Suite 500

El Paso, Texas 79901

Tel. (915) 532-2901

Fax (915) 532-0807

www.cpa-sp.com

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, 2017, 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 January 5, 2018.

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.

STRAICKLER & PRIZO, LLP

El Paso, Texas
January 5, 2018