



## Strickler & Prieto, LLP

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

January 4, 2019

Board of Directors  
El Paso Downtown Management District  
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, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, 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 13, 2018. 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 2018. 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 4, 2019.

#### *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.

#### **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, 2018  
and Independent Auditor's Report

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	1
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	9
Statement of Activities	10
GOVERNMENTAL FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds	11
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	14
Notes to Financial Statements	15
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule - General Fund	23
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	24



## **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**

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, 2018, 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, 2018, 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 3-8, and 23 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 4, 2019 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 & PRISTO, LLP

January 4, 2019

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

# **EL PASO DOWNTOWN MANAGEMENT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2018**

---

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, 2018.

## **OPERATIONAL HIGHLIGHTS**

During the fiscal year ending September 30, 2018, the DMD continued and assumed numerous efforts to further its mission and to further strengthen downtown El Paso as the heart of the city.

- The DMD continued to serve as a valuable communicator and advocate for downtown property and business owners. The organization's involvement in the planning and implementation of public projects such as the Paseo de las Luces and WinterFest, and private efforts including the Courtyard by Marriott, Aloft, Plaza Hotel, and Paso del Norte Hotel continue to require intense communication and coordination. The DMD often served as the point of contact, distributor of information, and organizer of outreach.
- Two key stakeholder groups were established to better coordinate parking management, and to make Downtown El Paso the best place to work in the city. The DMD assembled Parking Managers representing public and private assets to facilitate improved communication internally and externally with the focus on ultimately creating a better experience for users. Human Resource Managers representing large and small downtown employers were assembled to identify ways to create a positive environment for downtown employees.
- The Start Up Downtown initiative was launched to promote growing economic development opportunities in Downtown El Paso. The effort, rooted in partnerships with the Small Business Development Center, Hispanic Chamber of Commerce, El Paso Chamber, City of El Paso Economic Development, El Paso County Economic Development, the Women's Business Border Center, the Minority Business Development Agency and others, looks to provide greater awareness of investment opportunity and business development assistance. The effort kicked off with a networking and informational event and continues through ongoing promotions of business opportunities and efforts.
- A full year of DMD managed events set a high standard in production, participation, community support and promotion of what Downtown El Paso has to offer. These events provided great exposure to residential developments, restaurants, bars, other assets, and the DMD itself.
- With funds provided by both the DMD and TIRZ No. 5, nine grants were provided for façade improvements, iconic signage and lighting projects, and a mural. Over \$152,000 in grant funds reflect greater investment by the private sector and physical improvements to the downtown environment.

- The Downtown Management District continues to utilize social media as a means to promote and market downtown businesses, events and attractions. Total reach on all platforms continues to surge. At the conclusion of the program year, the DMD has 21,801 likes on Facebook, 11,180 followers on Twitter, and 29,464 followers on Instagram in addition to 5,591 subscribers to the Downtown INSIDER electronic newsletter.
- The El Paso Downtown Management District was selected by the International Downtown Association to participate in its second round of the Value of U.S. Downtowns project. A thorough research effort was conducted with support from the City of El Paso. The final report will be presented in early 2019.
- The DMD Board of Directors maintained a quorum at all ten meetings held during the program year. The board continues to take an active role in organizational oversight and advocacy. The board formally adopted four position statements throughout the year and formalized the inclusion of its Ex Officio membership.

### **FINANCIAL HIGHLIGHTS**

- The assets of the DMD exceeded its liabilities at the close of the most recent fiscal year by \$423,496. Of this amount, \$256,102 (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 \$(75,652) 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 \$423,496 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>2018</b>	<b>2017</b>
Current and other assets	\$ 605,289	\$ 781,975
Capital assets	<u>44,090</u>	<u>57,968</u>
Total assets	<u>649,379</u>	<u>839,943</u>
Current liabilities	<u>225,883</u>	<u>340,795</u>
Total liabilities	<u>225,883</u>	<u>340,795</u>
Net position:		
Net investment in capital assets	44,090	57,968
Restricted for facade program	123,304	94,731
Unrestricted	<u>256,102</u>	<u>346,449</u>
Total net position	<u>\$ 423,496</u>	<u>\$ 499,148</u>

## GOVERNMENTAL ACTIVITIES

Program revenues for the DMD's governmental activities were \$468,694, and general revenues were \$306,894, while total expenses were \$851,240.

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>2018</u>	<u>2017</u>
Revenues		
Program revenues		
Charges for services	\$ 271,842	\$ 275,387
Operating grants and contributions	<u>196,852</u>	<u>102,863</u>
Subtotal	<u>468,694</u>	<u>378,250</u>
General revenues		
Property taxes	303,225	461,571
Investment earnings	<u>3,669</u>	<u>2,549</u>
Subtotal	<u>306,894</u>	<u>464,120</u>
Total revenue	<u>775,588</u>	<u>842,370</u>
Expenses		
Administrative staff	344,800	311,194
Administrative office	82,187	77,695
Sanitation	176,361	191,684
Promotion and advertising	17,309	23,944
Community projects	217,757	173,655
Parking	3,600	3,840
Professional services	<u>9,226</u>	<u>11,145</u>
Total expenses	<u>851,240</u>	<u>793,157</u>
Increase (decrease) in net position	(75,652)	49,213
Beginning net position	<u>499,148</u>	<u>449,935</u>
Ending net position	<u>\$ 423,496</u>	<u>\$ 499,148</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 \$362,522, which is an increase of \$(48,928).

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 \$239,218 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 28%.
- Charges for services decreased 1% from the prior year.
- Grant revenue increased \$93,989 from the prior year.
- Administration staff expenses increased \$33,606 from the prior year.
- Sanitation expenses decreased \$19,868 from the prior year.
- Administration office increased \$4,255 from the prior year.
- Promotion and advertising decreased \$6,635 from the prior year.
- Professional fees decreased \$1,919 from the prior year.
- Community projects increased \$44,102 from the prior year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

At the end of the fiscal year, the DMD's actual revenues exceeded projected revenues by \$(69,349). There are four categories listed in the Budgetary Comparison Schedule that contain significant variances as identified by the DMD. These are as follows:

- Tax revenue was \$60,963 less than expected due to successful protest filings.

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, 2018 was \$44,090 (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 and tax revenue is estimated to be \$372,961 for the fiscal year 2018-2019. The budget for the fiscal year 2018-2019, has a deficit of \$35,844 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, 2018

---

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 124,130
Investments	444,485
Property tax receivable	28,184
Other receivables	8,490
	<hr/>
Total current assets	605,289
Capital assets, net	<hr/> 44,090
<b>TOTAL ASSETS</b>	<hr/> <b>\$ 649,379</b> <hr/>
<b>LIABILITIES AND NET POSITION</b>	
Current liabilities	
Accrued expenses	\$ 26,173
Grants payable - facade program	189,137
Unearned revenue - facade program	10,573
	<hr/>
Total current liabilities	225,883
Net position	
Net investment in capital assets	44,090
Restricted for facade program	123,304
Unrestricted net position	256,102
	<hr/>
Total net position	423,496
<b>TOTAL LIABILITIES AND NET POSITION</b>	<hr/> <b>\$ 649,379</b> <hr/>

See accompanying notes to financial statements.

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<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	\$ 344,800	\$ -	\$ -		\$ (344,800)
Administrative office	82,187	-	-		(82,187)
Sanitation	176,361	236,923	-		60,562
Promoting and advertising	17,309	-	-		(17,309)
Community projects	217,757	34,919	196,852		14,014
Parking	3,600	-	-		(3,600)
Professional fees	9,226	-	-		(9,226)
	<u>851,240</u>	<u>271,842</u>	<u>196,852</u>		<u>(382,546)</u>
Total governmental activities					
	<u>851,240</u>	<u>271,842</u>	<u>196,852</u>		<u>(382,546)</u>
General revenues:					
Property taxes, levied for general purposes					303,225
Investment earnings					<u>3,669</u>
Total general revenues					<u>306,894</u>
Change in net position					(75,652)
Net position, beginning of year					<u>499,148</u>
Net position, end of year					<u>\$ 423,496</u>

See accompanying notes to financial statements.

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2018

---

	<u>General Fund</u>	<u>Facade Program</u>	<u>Total Government Funds</u>
<b>ASSETS</b>			
Cash	\$ 53,857	\$ 70,273	\$ 124,130
TexPool investments	191,744	252,741	444,485
Property tax receivable	28,184	-	28,184
Other receivables	8,490	-	8,490
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 282,275</u>	<u>\$ 323,014</u>	<u>\$ 605,289</u>
<b>LIABILITIES</b>			
Accrued expenses	\$ 26,173	\$ -	\$ 26,173
Grants payable - facade program	-	189,137	189,137
Unearned revenue - facade program	-	10,573	10,573
	<hr/>	<hr/>	<hr/>
Total liabilities	26,173	199,710	225,883
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	16,884	-	16,884
	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	<u>16,884</u>	<u>-</u>	<u>16,884</u>
<b>FUND BALANCES</b>			
Assigned to facade program	-	123,304	123,304
Unassigned	239,218	-	239,218
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>239,218</u>	<u>123,304</u>	<u>362,522</u>
	<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflows, and fund balances	<u>\$ 282,275</u>	<u>\$ 323,014</u>	<u>\$ 605,289</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, 2018

---

Total Fund Balances - Governmental Fund \$ 362,522

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. 44,090

Recognition of unavailable tax revenue as revenue 16,884

Net Position of Governmental Activities \$ 423,496

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, 2018

	<u>General Fund</u>	<u>Facade Program</u>	<u>Total Government Funds</u>
Revenues:			
Taxes (ad valorem)	\$ 316,071	\$ -	\$ 316,071
Charges for services	271,842	-	271,842
Grant	56,722	140,130	196,852
Interest income	1,066	2,603	3,669
	<u>645,701</u>	<u>142,733</u>	<u>788,434</u>
Total revenues			
Expenditures:			
Sanitation	163,414	-	163,414
Administrative staff	344,800	-	344,800
Promotion and advertising	17,309	-	17,309
Administrative office	81,256	-	81,256
Community projects	103,597	114,160	217,757
Parking	3,600	-	3,600
Professional fees	9,226	-	9,226
	<u>723,202</u>	<u>114,160</u>	<u>837,362</u>
Total expenditures			
Net change in fund balances	(77,501)	28,573	(48,928)
Fund balances, October 1, 2017	<u>316,719</u>	<u>94,731</u>	<u>411,450</u>
Fund balances, September 30, 2018	<u>\$ 239,218</u>	<u>\$ 123,304</u>	<u>\$ 362,522</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, 2018

---

Total Net Change in Fund Balance - Governmental Fund \$ (48,928)

The effect of including the change in unavailable tax revenue of 2018  
is to decrease net position. (12,846)

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	793	
Depreciation	<u>(14,671)</u>	<u>(13,878)</u>

Change in Net Position of Governmental Activities \$ (75,652)

See accompanying notes to financial statements.

# EL PASO DOWNTOWN MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

---

### 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 DMD 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 DMD 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 DMD 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 DMD's agent bank in an amount sufficient to protect DMD 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 DMD 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 DMD 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 DMD requires counterparties to register the securities in the name of the district and hand them over to the DMD 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 DMD limits investments in public funds investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of September 30, 2018, the DMD's investments in TexPool were rated AAAM by Standard & Poors.

***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 DMD 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 DMD'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 DMD requires its investment portfolio to have maturities of less than one year on a weighted average maturity (WAM) basis. The DMD's portfolio is in compliance with its policy. All of the DMD'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 two financial institutions. At September 30, 2018 the carrying amount of the DMD's deposits (cash) was \$145,818, and the bank balance was \$124,130.

**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, 2018, 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, 2018 were as follows:

	<b>Carrying Value</b>	<b>Market Value</b>
TexPool	<u>\$ 444,485</u>	<u>\$ 444,485</u>
	<u>\$ 444,485</u>	<u>\$ 444,485</u>

The State Comptroller of Public Accounts excercises responsibility over TexPool. This oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized costs rather than market value to report net position and to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

**3. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2018 was as follows:

	<u>Balance at 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 2018</u>
Capital assets, being depreciated:				
Furniture and equipment	\$ 229,709	\$ 794	\$ -	\$ 230,503
Less accumulated depreciation for:				
Furniture and equipment	<u>171,742</u>	<u>14,671</u>	<u>-</u>	<u>186,413</u>
	<u>\$ 57,967</u>	<u>\$ (13,877)</u>	<u>\$ -</u>	<u>\$ 44,090</u>

Depreciation expense for the year ended September 30, 2018 was charged to functions (programs) as follows:

Sanitation	\$ 13,740
Administrative	<u>931</u>
	<u>\$ 14,671</u>

**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, 2017, property taxes of approximately \$400,202 were levied for the general fund. These revenues were budgeted for and recorded in fiscal year 2018.

**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, 2019	31,782
September 30, 2020	32,064
September 30, 2021	8,316
	<hr/>
	\$ 72,162
	<hr/>

Rent expense under these operating leases for the year ended September 30, 2018 amounted to \$32,734.

**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, 2018, 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 \$28,779.

The DMD entered into an agreement with a board members for street pole banners rentals. Total amount received for these services was \$3,975.

The DMD entered into agreements with two board members participating in DMD Facade grant programs. The awards amounted to \$18,895 and \$25,000, awarded on September 26, 2018 and October 10, 2018, respectively.

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, 2018

	General Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget Positive or (Negative)
Revenues:				
Taxes (ad valorem)	\$ 377,034	\$ 377,034	\$ 316,071	\$ (60,963)
Interest income	2,403	2,403	1,066	(1,337)
Charges for services	275,098	275,098	271,842	(3,256)
Grants	60,515	60,515	56,722	(3,793)
Total revenues	715,050	715,050	645,701	(69,349)
Expenditures:				
Administrative staff	348,240	348,240	344,800	3,440
Parking and transportation	-	-	3,600	(3,600)
Contracted services	9,500	9,500	9,226	274
Administration - office	84,329	84,329	81,256	3,073
Community projects	128,752	128,752	82,123	46,629
Security	22,500	22,500	21,474	1,026
Sanitation	182,000	182,000	163,414	18,586
Promoting and advertising	18,000	18,000	17,309	691
Total expenditures	793,321	793,321	723,202	70,119
Excess of revenue over (under) expenditures	(78,271)	(78,271)	(77,501)	770
Net change in fund balance	\$ (78,271)	\$ (78,271)	\$ (77,501)	\$ 770



## 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, 2018, 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 4, 2019.

#### **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 & FRIETO, LLP*

El Paso, Texas  
January 4, 2019