

NORTH HOUSTON DISTRICT

HOUSTON, TEXAS

FINANCIAL REPORT

For the Year Ended October 31, 2018

NORTH HOUSTON DISTRICT
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FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
North Houston District
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of North Houston District (the "District"), as of and for the year ended October 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

To the Board of Directors
North Houston District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of October 31, 2018, and the respective changes in financial position for the year then ended in conformity 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 on pages 3 through 8 and budgetary comparison information on pages 29 through 30 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.

Whitley Penn LLP

Houston, Texas
February 26, 2019

NORTH HOUSTON DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the North Houston District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended October 31, 2018.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator regarding the financial position of the District. Other factors that are not included in the financial statements, such as increased tax base in the District's boundaries, should be considered in evaluating the condition of the District's overall financial position.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, 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 District's funds are considered 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

NORTH HOUSTON DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The District maintains three major governmental funds. The *General Fund* is used to account for administrative operations of the District. *Special Revenue Funds* are used to account for the activities of the Skate Park and Greenspoint Community Partners.

The District adopts an annual non-appropriated budget for its General Fund. A budgetary comparison statement 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.

Financial Analysis of the District as a Whole

In the government-wide statements, the difference between assets and liabilities is called net position. The District's net position at October 31, 2018, was \$3,930,088.

Net position is categorized based on its availability to provide financial resources for the District. "Investment in capital assets" represents the District's investments in capital assets. "Unrestricted" net position represents amounts available to meet the District's future obligations.

A comparative summary of the District's overall financial position as of October 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 1,160,781	\$ 758,069
Capital assets	2,981,913	2,824,683
Total Assets	<u>4,142,694</u>	<u>3,582,752</u>
Other liabilities	174,857	170,455
Long-term liabilities	37,749	36,991
Total Liabilities	<u>212,606</u>	<u>207,446</u>
Net Position:		
Investment in capital assets	2,981,913	2,824,683
Restricted for grants and skate park	110,470	105,011
Unrestricted	837,705	445,612
Total Net Position	<u>\$ 3,930,088</u>	<u>\$ 3,375,306</u>

NORTH HOUSTON DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Total net position of the District increased by \$554,782. A comparative summary of the District's Statement of Activities for the past two years is as follows:

	<u>2018</u>	<u>2017</u>
Revenues		
Program revenue:		
Charges for services	\$ 500,000	\$ 500,000
Grants and contributions	11,500	289,703
General revenues:		
Property assessments	3,920,702	3,240,570
Unrestricted investment earnings	1,154	958
Other	2,528	(38,160)
Total Revenues	<u>4,435,884</u>	<u>3,993,071</u>
Expenses		
Public safety	785,845	885,741
Planning and infrastructure	986,505	1,368,452
Marketing and public affairs	124,912	416,400
Program support services	1,477,794	556,351
Skate Park Operations	506,046	481,556
Greenspoint Community Partners		14,877
Total Expenses	<u>3,881,102</u>	<u>3,723,377</u>
Change in net position	554,782	269,694
Net Position - beginning	<u>3,375,306</u>	<u>3,105,612</u>
Net Position - ending	<u>\$ 3,930,088</u>	<u>\$ 3,375,306</u>

Financial Analysis of the District's Funds

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The District's combined fund balances, as of October 31, 2018, were \$909,636. The following is a summary of changes in fund balances for the prior two fiscal years:

	<u>2018</u>	<u>Increase (Decrease)</u>	<u>2017</u>	<u>Increase (Decrease)</u>	<u>2016</u>
General Fund	\$ 799,166	\$ 361,173	\$ 437,993	\$ (151,102)	\$ 589,095
Special Revenue Fund - GCP	16,470	11,505	4,965	(37,439)	42,404
Special Revenue Fund - Skate Park	94,000	(6,046)	100,046	18,444	81,602
	<u>\$ 909,636</u>	<u>\$ 366,632</u>	<u>\$ 543,004</u>	<u>\$ (170,097)</u>	<u>\$ 713,101</u>

The fund balance of the District's General Fund increased by \$361,173 due to an increase in revenues along with a decrease in expenditures. The decrease in expenditures is related to the completion of Drake Park in FY 17 and consequently, the reduction of capital outlay in FY 18.

NORTH HOUSTON DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

General Fund Budgetary Highlights

The District's General Fund budget anticipated a decrease in fund balance of \$323,053, while the actual was an increase of \$361,173. The Budgetary Comparison Schedule, as listed in the table of contents of this report, provides variance information per financial statement line item. The anticipated decrease was due anticipated refunds on property tax assessments.

Capital Assets

Capital assets held by the District at the end of the current fiscal year are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital assets not being depreciated:		
Construction In Progress	\$	\$
Land	<u>259,607</u>	<u>259,607</u>
	<u>259,607</u>	<u>259,607</u>
Capital assets being depreciated:		
Park & Other Improvements	4,240,996	3,841,115
Office Equipment	40,713	40,713
Leasehold Improvements	264,836	264,836
Equipment - Park Office	<u>5,698</u>	<u>18,637</u>
	4,552,243	4,165,301
Less accumulated depreciation	<u>(1,829,937)</u>	<u>(1,600,225)</u>
	<u>2,722,306</u>	<u>2,565,076</u>
Capital assets, net of accumulated depreciation	<u>\$ 2,981,913</u>	<u>\$ 2,824,683</u>

During the current year there were additions to capital assets related to the re-branding project, design and replacement of street signs.

Additional information on the District's capital assets can be found in Note 5.

Economic Factors and Next Year's Budgets and Rates

Assessments

The District is a political subdivision of the State of Texas, created in 1991 by a special act of the 72nd Texas Legislature. The District levies an assessment on real property within its boundaries. Estimated assessment revenues for the year ending October 31, 2019, are approximately \$3,525,886, net of the refund reserve and allowance for delinquencies. The District's assessment rate for the 2018 tax year is \$0.167420 per \$100 of assessed value.

NORTH HOUSTON DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Budget

A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2018 Actual</u>	<u>2019 Budget</u>
Total revenues	\$ 3,892,706	\$ 3,754,790
Total expenditures	<u>3,531,528</u>	<u>4,010,714</u>
Revenues over/(under) expenditures	<u>361,178</u>	<u>(255,924)</u>
Internal transfers	<u>(5)</u>	<u> </u>
Net change in fund balance	361,173	(255,924)
Beginning fund balance	<u>437,993</u>	<u>799,166</u>
Ending fund balance	<u>\$ 799,166</u>	<u>\$ 543,242</u>

Economic Factors

Office space

Greenspoint has more than 20 million square feet of commercial development. Class A office space is at 32% occupancy. Our B and C space is at a combined 66% occupancy. Greenspoint continues to attract major companies, and leasing activity remains very strong particularly in warehouse and distribution facilities with several new leases and build-to-suit projects in 2018.

Hotels

The District's proximity to Bush Intercontinental Airport and the I-69 and I-45 Corridors continues to attract business travelers. Major brands in the area included Hilton, Marriott, Hampton Inn, Hyatt, Sheraton, DoubleTree and many more. These hotels provide an abundance of both guest rooms and meeting space to meet the needs of area businesses.

Recreational Development

The N. Houston Development Corp. has been a partner with the District in the development of parks and recreational facilities within the area. The North Houston Skate Park and Dylan Park, developed by the Authority and operated by the District, is seeing high attendance numbers and very positive feedback domestically and internationally. The Authority is also developing the North Houston BMX facility, expected to be open in 2019.

NORTH HOUSTON DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 16945 Northchase Dr., Suite 1900, Houston, TX 77060.

BASIC FINANCIAL STATEMENTS

NORTH HOUSTON DISTRICT

STATEMENT OF NET POSITION- GOVERNMENTAL ACTIVITIES

October 31, 2018

Assets

Cash and cash equivalents	\$ 1,084,022
Receivables	76,759
Capital assets, net of depreciation	<u>2,981,913</u>
Total Assets	<u><u>4,142,694</u></u>

Liabilities

Accounts payable and accrued expenses	171,504
Other payables	3,353
Long-term liabilities - compensated absences	<u>37,749</u>
Total Liabilities	<u><u>212,606</u></u>

Net Position

Investment in capital assets	2,981,913
Restricted for grants and skate park	110,470
Unrestricted	<u>837,705</u>
Total Net Position	<u><u>\$ 3,930,088</u></u>

See Notes to the Financial Statements.

NORTH HOUSTON DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended October 31, 2018

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
				Total
Governmental Activities				
Public Safety	\$ 785,845	\$	\$	\$ (785,845)
Planning and infrastructure	986,505			(986,505)
Marketing and public affairs	124,912			(124,912)
Program support services	1,477,794			(1,477,794)
Skate Park Operations	506,046	500,000		(6,046)
Greenspoint Community Partners			11,500	11,500
Total governmental activities	\$ 3,881,102	\$ 500,000	\$ 11,500	(3,369,602)
General revenues:				
Assessments				3,889,436
Penalties and interest				31,266
Investment earnings				1,154
Other				2,528
Total general revenues				3,924,384
Change in net position				554,782
Net position - beginning				3,375,306
Net position - ending				\$ 3,930,088

See Notes to the Financial Statements.

NORTH HOUSTON DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

October 31, 2018

	General Fund	Special Revenue Fund - Skate Park	Special Revenue Fund - GCP	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,067,552	\$	\$ 16,470	\$ 1,084,022
Assessments receivable	76,288			76,288
Other receivables	471			471
Due from other funds		114,723		114,723
Total assets	\$ 1,144,311	\$ 114,723	\$ 16,470	\$ 1,275,504
Liabilities				
Accounts payable	\$ 150,781	\$ 20,723	\$	\$ 171,504
Other payables	3,353			3,353
Due to other funds	114,723			114,723
Total liabilities	268,857	20,723		289,580
Deferred inflows of resources				
Unavailable Revenue - assesement revenue	76,288			76,288
Total deferred inflows of resources	76,288			76,288
Fund balance				
Nonspendable				
Restricted for grants and skate park		94,000	16,470	110,470
Unassigned	799,166			799,166
Total fund balance	799,166	94,000	16,470	909,636
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,144,311	\$ 114,723	\$ 16,470	\$ 1,275,504

See Notes to the Financial Statements.

NORTH HOUSTON DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION**

October 31, 2018

Total fund balance, governmental funds \$ 909,636

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position 2,981,913

Certain other receivables are not available to pay current period expenditures and are, therefore, not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position 76,288

Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. These are as follows:

Compensated absences (37,749)

Net Position of Governmental Activities in the Statement of Net Position \$ 3,930,088

See Notes to the Financial Statements.

NORTH HOUSTON DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

For the Year Ended October 31, 2018

	General Fund	Special Revenue Fund - Skate Park	Special Revenue Fund - GCP	Total Governmental Funds
Revenues				
Assessments	\$ 3,857,758	\$	\$	\$ 3,857,758
Penalties and interest	31,266			31,266
Investment earnings	1,154			1,154
Skate Park Operations		500,000		500,000
Reimbursements and Contributions	1,069			1,069
Donations			11,500	11,500
Other	1,459			1,459
Total revenues	<u>3,892,706</u>	<u>500,000</u>	<u>11,500</u>	<u>4,404,206</u>
Expenditures				
Current:				
Public Safety	785,845			785,845
Planning and infrastructure	1,386,386			1,386,386
Marketing and public affairs	124,912			124,912
Skate Park Operations		506,046		506,046
Program support services	1,234,385			1,234,385
Total expenditures	<u>3,531,528</u>	<u>506,046</u>		<u>4,037,574</u>
Excess (deficiency) of revenues over expenditures	<u>361,178</u>	<u>(6,046)</u>	<u>11,500</u>	<u>366,632</u>
Other financing sources (uses)				
Internal transfers	<u>(5)</u>		<u>5</u>	
Total other financing sources (uses)	<u>(5)</u>		<u>5</u>	
Net change in fund balance	361,173	(6,046)	11,505	366,632
Fund balance - beginning of year	<u>437,993</u>	<u>100,046</u>	<u>4,965</u>	<u>543,004</u>
Fund balance - end of year	<u>\$ 799,166</u>	<u>\$ 94,000</u>	<u>\$ 16,470</u>	<u>\$ 909,636</u>

See Notes to the Financial Statements.

NORTH HOUSTON DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended October 31, 2018

Net change in fund balances - total governmental funds: \$ 366,632

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays of \$399,881 exceeded depreciation expense of \$242,651. 157,230

Governmental funds do not report assessment revenues that are not available to pay current obligations. In contrast, such revenue is reported in the Statement of Activities when earned. 31,678

Expenses reported in the statement of activities for compensated absences liabilities do not require the use of current financial resources and are not reported as expenditures in governmental funds. (758)

Change in net position of governmental activities \$ 554,782

See Notes to the Financial Statements.

NORTH HOUSTON DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The financial statements of the North Houston District (“the District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The following is a summary of the most significant policies:

Creation

The District was organized, created, and established pursuant to an act of the Texas State Legislature, effective under the terms and provisions of Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution. The Board of Directors held its organizational meeting on August 27, 1991. Additional disclosure regarding significant legal provisions contained in the legislative act creating the District follows.

The District has all the rights, powers, privileges and authority conferred by the general law of the State of Texas applicable to districts created under Chapter 375, Local Government Code, as added by S.B. No. 232, Acts of the 72nd Legislature, Regular Session, 1991. The Board of Directors may not finance services and improvement projects unless a written petition has been filed with the Board requesting those improvements or services signed by:

- a) the owners of a majority of the assessed value of real property in the District as determined by the most recent certified county property tax roll; or
- b) If there are more than fifty persons who own property in the District as determined by the most recent certified county property tax roll, by at least fifty persons who own land within the District.

Because the District is created in an area that is devoted primarily to commercial and business activity, the District may not impose an impact fee or assessment on a detached single-family residential property or a residential duplex, triplex, quadruplex or condominium. A condominium is exempt under this section only if, for the year in which the impact fee or assessment is imposed on the condominium, the condominium receives a residence homestead exemption.

Reporting Entity

The District is a political subdivision of the State of Texas, governed by an appointed eighteen member board, and is considered a primary government. As required by accounting principles generally accepted in the United States of America, these financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by accounting principles generally accepted in the United States of America. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under accounting principles generally accepted in the United States of America include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District's primary activities include security, landscaping, maintenance, and marketing for the benefit of the Greenspoint area's commercial property owners.

Greenspoint Community Partners is a 501(c)(3) not-for-profit entity, which is dedicated to strengthening programs that enhance the quality of life and establish a renewed sense of area identity and pride. It was established by the Greenspoint District in 2004 to sustain and grow financial and community support for programs that would otherwise be absent in the community. Greenspoint Community Partners is governed by a volunteer board of directors, composed of business partners and residents. Although a separate entity, the board of Greenspoint Community Partners works in partnership with the North Houston District to support community programs that focus on three key areas: developing parks and trails, ensuring public safety, and creating an attractive community.

Government-Wide Financial Statements

The Government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the District as a whole. These financial statements focus on the sustainability of the District as an entity and change in aggregate financial position resulting from activities of the fiscal period. Interfund activity, if any, has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Assessments and other items not properly included among program revenues are reported as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Net Position in the Government-wide financial statements is classified as either investment in capital assets, restricted, or unrestricted. These classifications are explained below.

- Investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation.
- Restricted net position – This component of net position consists of restrictions that are beyond the District's control (e.g. creditors, grantors or contributors, restrictions imposed by law).

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

- Unrestricted net position - This component of net position consists of net position that does not meet the definition of “investment in capital assets” or “restricted net position”.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred as due and payable. Grant revenues are recognized when the requirements of the grant have been satisfied.

The District has three major governmental funds:

The *General Fund* is used to account for administrative operations of the District. The principal sources of operating revenue are from assessments. The principal source of non-operating revenues is from property assessments and donations. Expenditures include all costs associated with the daily operations of the District.

The *Special Revenue Fund* is used to account for financial resources that are restricted by law or contractual agreement for specific purposes other than debt service or major capital projects. The District has two Special Revenue Funds as follows:

The North Houston Skate Park was developed by the Greater Greenspoint Redevelopment Authority and opened in 2014. The facility includes over 77,000 square feet of skateable surface and is the largest skate park in North America. The North Houston District operates and maintains the facility through an agreement with the Greater Greenspoint Redevelopment Authority.

GCP is used to account for the activities of the Greenspoint Community Partners. The principal sources of revenue are from contributions and grants. Expenditures include operational activities and special projects relating to parks and recreation, public safety, and beautification.

Deposits and Investments

Investments for the District are reported at fair value. The funds of the District must be deposited and invested under the terms of a depository contract, the contents of which are set out in the Depository Contract Law. The depository bank may either place approved pledged securities for safekeeping and trust with the District's agent bank or file a corporate surety bond 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 FDIC insurance. The depository cash balances were covered by FDIC insurance and by collateral held by the District's agent in the District's name. The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Deposits and Investments (continued)

The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79 *Certain Investment Pools and Pool Participants*.

Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. The District defines capital assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are valued at their acquisition value on the date received. Assets are depreciated over their remaining useful lives using the straight-line method. Capital assets include improvements, machinery, and equipment depreciated over useful lives of five to 20 years.

Fund Equity

The District records as restricted, all or portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unassigned fund balance indicates that portion of fund balance which is available for appropriation in future periods. The restricted fund balances for governmental funds represents the amount that has been identified for specific purposes.

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions". The statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet. At October 31, 2018, the District reports a nonspendable fund balance of \$0.
- Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. The fund balances for the Special Revenue Funds are classified as restricted. At October 31, 2018, the District reports a restricted fund balance of \$110,470.
- Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision making authority (i.e. the Board of Directors). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District did not have committed fund balance.
- Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by a governing board or by an official to whom the Board of Directors delegates the authority. The District did not have assigned fund balance.

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 1 - Summary of Significant Accounting Policies *(continued)*

Fund Equity *(continued)*

- Unassigned fund balance – amounts that are available for any purpose. Positive numbers can only be reported in the general fund. At October 31, 2018, the District reports an unassigned fund balance of \$799,166.

The District establishes (and modifies or rescinds) fund balance commitments by passage of resolution. When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At October 31, 2018, no allowance is recorded as all receivables were considered collectible.

Compensated Absences

The District's employees earn vacation leave, which may either be taken or accumulated, up to certain amounts, until paid upon termination or retirement. The amounts are recorded as a liability on the Statement of Net Position.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

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 amounts reported in the financial statements. Actual results could differ from those estimates.

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral.

The District's governing board and administration have enacted policies to ensure compliance with state laws regarding deposit of District funds and maintain a formal depository agreement with the District's depository bank.

At October 31, 2018, the reported amount of the District's deposits was \$90,802 and the bank balance was \$138,341. Of the bank balance, the entire amount was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (5) certain A-rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools, and (14) a qualified securities lending program.

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Deposits and Investments (continued)

Investments (continued)

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. The Board of Directors most last amended the policy with an effective date of April 24, 2012. This policy further restricts the types of investments in which the District may invest. Unless specifically prohibited by law or elsewhere in the District's policy, District funds can only be invested in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (4) certain A-rated or higher obligations of states and political subdivisions of any state, (5) guaranteed, insured, or secured certificates of deposit, and (6) no-load money market mutual funds, and (7) TexPool, an investment pool.

For the year ended October 31, 2018, the District invested in TexPool which is a local government investment pool.

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool uses amortized cost to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the District's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAM by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

At October 31, 2018, the District's cash and investments consisted of the following:

Demand deposit accounts	\$	90,802
TexPool		993,220
Total	\$	<u>1,084,022</u>

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Deposits and Investments (continued)

Interest Rate Risk

Exposure to decline in fair values is managed by investments with a weighted average maturity of less than one year.

Credit Risk

Credit risk loss is minimized by investing with TexPool and as such, limits the risk of loss due to custodial credit risk.

The District reports its local government investment pools at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. In addition, TexPool does not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. This pool does not impose any liquidity fees or redemption gates.

Note 3 - Receivables

Receivables in the governmental activities include \$76,288 of assessments receivable and \$471 of other receivables.

Note 4 - Assessments

The Board of Directors has authorized annual assessments to commercial property owners in the District to finance the cost of improvement projects and other authorized services. These annual assessments become liens on the property effective January 1 of each assessment year, they are billed each December of the assessment year and are levied based on commercial property values established by the Harris County Appraisal District as of January 1 of the assessment year. Assessments become due when billed and become delinquent February 1 of the year following the assessment year. The total assessment for fiscal year 2018 was \$4,099,353, which is based on an assessment rate of \$0.167420 per \$100 of commercial property value. The adjusted property value used for the assessment for fiscal year 2018 (the 2017 assessment year) was \$2,448,544,509 after reductions and exemptions. Assessments receivable by year at October 31, 2018, are shown below.

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Receivable</u>
2018	2017	\$ 54,583
2017	2016	4,277
Prior	Prior	17,428
		<u>\$ 76,288</u>

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Capital Assets

A summary of changes in capital assets, for the year ended October 31, 2018, is as follows:

	Balance November 1, 2017	Additions	Transfers/ Deletions	Balance October 31, 2018
Capital assets not being depreciated:				
Land	\$ 259,607	\$	\$	\$ 259,607
Total capital assets not being depreciated:	259,607			259,607
Capital assets being depreciated:				
Park & Other Improvements	3,841,115	399,881		4,240,996
Office Equipment	40,713			40,713
Leasehold Improvements	264,836			264,836
Equipment - Park Office	18,637		(12,939)	5,698
Subtotal	4,165,301	399,881	(12,939)	4,552,243
Less accumulated depreciation	(1,600,225)	(242,651)	12,939	(1,829,937)
Total capital assets being depreciated:	2,565,076	157,230		2,722,306
Capital assets, net	\$ 2,824,683	\$ 157,230	\$	\$ 2,981,913

Depreciation expense was charged to functions as follows:

Planning and infrastructure	\$ 219,008
Program support services	23,643
Total depreciation expense	\$ 242,651

The District did not have any capital projects in progress as of October 31, 2018.

Note 6 - Related Party Transactions

Effective January 1, 2013, the District entered into an agreement with Greens Bayou Corridor Coalition (GBCC) whereby the District will provide “basic services” as outlined below.

The District will provide the necessary personnel to accomplish the management and administrative services for the Coalition described as:

- Administrative services, basic financial services and program monitoring systems that are necessary to assist in the management of the GBCC for the hourly rate of \$30.00;
- Use of the District’s office space, furniture and such shared basic office equipment needed to enable the Coalition to function at no additional costs;
- Coordinate with and help the Coalition to arrange for engineering, planning, legal, financial, real estate, accounting, and other services through consultants engaged by the Coalition as may be requested by the Coalition.

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Related Party Transactions (continued)

The GBCC reimburses the District at cost for expenses incurred specifically on behalf of the GBCC.

The project fee for special services shall be determined on a project-by-project basis consistent with the written proposal for special services as agreed to from time to time by the District and GBCC.

Note 7 - Line of Credit

On November 1, 2018, the District renewed a line of credit with Amegy Bank for \$400,000. The line of credit is payable upon demand and expires on October 22, 2019. Interest will be computed on the basis of a 365-day year and the actual days elapsed with a fluctuating rate per annum equal to The Wall Street Journal prime rate of interest. As of October 31, 2018, there have not been any draws against this line of credit.

Note 8 - Operating Leases

The District has entered into various operating leases for office space and equipment. The total cost under these leases in the current fiscal year was \$312,270. The District's lease for office space is one of the most significant of these leases with monthly payments of approximately \$11,000 per month for base rent and related costs. In addition, the District pays monthly rent of \$16,000 per month for a temporary space for the Houston Police Department to increase security in the area. Future minimum lease payments for the leases are as follows:

Year ending October 31,	Office Space	HPD
2018	\$ 131,534	\$ 176,000
2019	131,534	176,000
2020	131,534	176,000
Total	\$ 526,134	\$ 528,000

Note 9 - Compensated Absences

A summary of activity for compensated absences for the year ended October 31, 2018, follows:

Balance, November 1, 2017	\$ 36,991
Additions	46,928
Reductions	<u>(46,170)</u>
Balance, October 31, 2018	<u>\$ 37,749</u>

Note 10 - Pension Plan

The District established a simplified employee pension plan (SEP) that covers substantially all of the District's employees on November 6, 1991. A SEP is a tax-deferred retirement plan, with an individual account for each participant, which provides pension benefits in return for services rendered and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

NORTH HOUSTON DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 10 - Pension Plan (continued)

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by the plan, all full-time employees over the age of 21 with 12 months of service are eligible to become a participant under the plan. Contributions made by the District vest immediately. An employee who leaves the employment of the District is entitled to all contributions, plus any accumulated earnings, in that employee's account.

The amount set by the District to be paid into the plan is determined by the Board of Directors and the rules that govern SEP plans. For the year ended October 31, 2018, the District contributed \$48,919 (8% for each covered employee).

The plan is fully funded on a current basis and is administered by an independent brokerage firm.

Note 11 - Interfund Transfer

Interfund transfers are made throughout the normal course of operations. These receivable and payables are eliminated from the government-wide Statement of Net Position and are classified as "due from other funds" or "due to other funds" in the fund financial statements.

Note 12 - Deferred Compensation Plan

The District offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Employees may participate in the plan upon completion of one year of service. The plan permits employees to defer a portion of their salary until future years. The District matches employee contributions up to 6% of total compensation, depending on a combination of the employee's tenure and contribution level. Employees may contribute above the 6% match, up to the limit set annually by the Internal Revenue Service. The plan is administered by Vantagepoint Transfer Agents. For the year ended October 31, 2018, the District contributed \$28,017 to the Deferred Compensation Plan.

Note 13 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injuries; and natural disasters. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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NORTH HOUSTON DISTRICT**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES AND****CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL***For the Year Ended October 31, 2018*

	<u>Adopted</u>	<u>Amended</u>	<u>Actual</u>	Variance Positive / (Negative)
Revenues				
Assessments	\$ 3,525,886	\$ 3,525,886	\$ 3,857,758	\$ 331,872
Penalties and interest	10,000	10,000	31,266	21,266
Investment earnings	1,000	1,000	1,154	154
Reimbursements and contributions	5,000	5,000	2,528	(2,472)
Other		15,000		(15,000)
Total Revenues	<u>3,541,886</u>	<u>3,556,886</u>	<u>3,892,706</u>	<u>335,820</u>
Expenditures				
Current:				
Public Safety	742,477	772,477	785,845	(13,368)
Planning and infrastructure	1,396,075	1,476,075	1,386,386	89,689
Marketing and public affairs	179,000	179,000	124,912	54,088
Program support services	1,452,087	1,452,087	1,234,385	217,702
Greenspoint Community Partners	300	300		300
Total Expenditures	<u>3,769,939</u>	<u>3,879,939</u>	<u>3,531,528</u>	<u>348,411</u>
Excess (deficiency) of revenues over expenditures	(228,053)	(323,053)	361,178	684,231
Other financing uses				
Internal transfers			(5)	(5)
Net change in fund balance	(228,053)	(323,053)	361,173	684,226
Fund balances - beginning of year	<u>437,993</u>	<u>437,993</u>	<u>437,993</u>	
Fund balances - end of year	<u>\$ 209,940</u>	<u>\$ 114,940</u>	<u>\$ 799,166</u>	<u>\$ 684,226</u>

NORTH HOUSTON DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting

The District has complied with all material budget requirements for the year ended October 31, 2018.

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors, using the same basis of accounting as for financial reporting.

Expenditures may not legally exceed budgeted appropriations at the functional level (i.e. public safety, planning and infrastructure, etc.). Expenditure requests that require an increase in total budgeted appropriation, must be approved by the Board of Directors through a budget amendment. At any time during the fiscal year, the Board of Directors may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The Board of Directors has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Actual expenditures exceeded budget in public safety by \$13,368. The primary reason for this was due to accounting adjustments related to a prior reporting period.

Actual revenues exceeded budget by \$331,872. The primary reason for this was fewer than anticipated refunds related to assessment value.

Amounts reported in the accompanying financial statements represent the adopted budgeted amount plus all supplemental appropriations.