

**SOUTHWEST MANAGEMENT DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2017**



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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southwest Management District  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of Southwest Management District (the "District"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**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 District'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.



Board of Directors  
Southwest Management 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 major fund of the District as of December 31, 2017 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

April 23, 2018



**SOUTHWEST MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Management's discussion and analysis of the Southwest Management District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2017.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. This report also includes required and other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District's assets, liabilities, and deferred inflows and outflows of resources, if applicable, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current year. All current year revenues and expenses are included regardless of when cash is received or paid.

**FUND FINANCIAL STATEMENTS**

The combined statements also include 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 has one governmental fund type and considers it a major fund. The General Fund accounts for resources not accounted for in another fund, assessment revenues, costs and general expenditures.

**SOUTHWEST MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**FUND FINANCIAL STATEMENTS (Continued)**

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE FINANCIAL STATEMENTS**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

**OTHER INFORMATION**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI for the General Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The District's assets exceeded liabilities and deferred inflows of resources by \$1,995,843 as of December 31, 2017.

**SOUTHWEST MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The following is a comparative analysis of government-wide changes in net position:

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 2,255,339	\$ 2,289,923	\$ (34,584)
Capital Assets (Net of Accumulated Depreciation)	1,846,927	1,800,720	46,207
Total Assets	\$ 4,102,266	\$ 4,090,643	\$ 11,623
Long -Term Liabilities	\$	\$ 300,683	\$ 300,683
Other Liabilities	120,866	93,718	(27,148)
Total Liabilities	\$ 120,866	\$ 394,401	\$ 273,535
Deferred Inflows of Resources	\$ 1,985,557	\$ 1,876,861	\$ (108,696)
Net Position:			
Net Investment in Capital Assets	\$ 1,846,927	\$ 1,500,037	\$ 346,890
Unrestricted	148,916	319,344	(170,428)
Total Net Position	\$ 1,995,843	\$ 1,819,381	\$ 176,462

The following table provides a comparative analysis of the District's operations for the years ended December 31, 2017, and the December 31, 2016.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Assessment Revenue	\$ 1,782,750	\$ 1,679,237	\$ 103,513
Other Revenues	55,138	35,917	19,221
Total Revenues	\$ 1,837,888	\$ 1,715,154	\$ 122,734
Expenses for Services	1,661,426	1,348,639	(312,787)
Change in Net Position	\$ 176,462	\$ 366,515	\$ (190,053)
Net Position, Beginning of Year	1,819,381	1,452,866	366,515
Net Position, End of Year	\$ 1,995,843	\$ 1,819,381	\$ 176,462

**SOUTHWEST MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's General Fund fund balance as of December 31, 2017 was \$98,255, a decrease of \$185,438 from the prior year, primarily due to the early pay off of the Amegy Bank note payable.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$94,087 less than budgeted revenues. Actual expenditures were \$99,054 less than budgeted expenditures.

**CAPITAL ASSETS**

The District's capital assets as of December 31, 2017, amount to \$1,846,927 (net of accumulated depreciation). These capital assets include landscape enhancements and wayfinding signage. Additional information on the District's capital assets can be found in Note 5 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Construction in Progress	\$	\$ 21,155	\$ (21,155)
Capital Assets, Net of Accumulated Depreciation:			
Landscaping Enhancements	1,147,151	1,229,090	(81,939)
Wayfinding Signage	699,776	550,475	149,301
Total Net Capital Assets	<u>\$ 1,846,927</u>	<u>\$ 1,800,720</u>	<u>\$ 46,207</u>

**LONG-TERM DEBT ACTIVITY**

At year-end, the District did not have any debt payable. During the current fiscal year, the District paid their debt in full and made principal and interest payments of \$278,068 and \$1,016, respectively.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Southwest Management District, c/o Hawes Hill & Associates, LLP, P.O. Box 22167, Houston, Texas 77227-2167.

**SOUTHWEST MANAGEMENT DISTRICT  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2017**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Cash	\$ 413,950	\$	\$ 413,950
Investments	200,144		200,144
Receivables:			
Assessment Fees	1,619,863		1,619,863
Penalty and Interest on Delinquent Taxes		12,021	12,021
Other	3,000		3,000
Prepaid Costs	6,361		6,361
Capital Assets (Net of Accumulated Depreciation)		1,846,927	1,846,927
<b>TOTAL ASSETS</b>	<u>\$ 2,243,318</u>	<u>\$ 1,858,948</u>	<u>\$ 4,102,266</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 98,101	\$	\$ 98,101
Due to Taxpayers	22,765		22,765
<b>TOTAL LIABILITIES</b>	<u>\$ 120,866</u>	<u>\$ -0-</u>	<u>\$ 120,866</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Assessment Fees	\$ 2,024,197	\$ (38,640)	\$ 1,985,557
<b>FUND BALANCE</b>			
Nonspendable:			
Prepaid Costs	\$ 6,361	\$ (6,361)	\$
Assigned to 2018 Budget Deficit	91,894	(91,894)	
<b>TOTAL FUND BALANCE</b>	<u>\$ 98,255</u>	<u>\$ (98,255)</u>	<u>\$ - 0 -</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
	<u>\$ 2,243,318</u>		
<b>NET POSITION</b>			
Net Investment in Capital Assets		\$ 1,846,927	\$ 1,846,927
Unrestricted		148,916	148,916
<b>TOTAL NET POSITION</b>		<u>\$ 1,995,843</u>	<u>\$ 1,995,843</u>

The accompanying notes to the financial  
statements are an integral part of this report.

**SOUTHWEST MANAGEMENT DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

Total Fund Balance - Governmental Fund \$ 98,255

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 as assets in the governmental funds. 1,846,927

Deferred inflows of resources related to assessment revenues and penalty and interest receivable on delinquent assessment for the 2016 and prior assessment levies became part of recognized revenue in the governmental activities of the District. 50,661

Total Net Position - Governmental Activities \$ 1,995,843

The accompanying notes to the financial statements are an integral part of this report.

**SOUTHWEST MANAGEMENT DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>REVENUES</b>			
Assessment Revenue	\$ 1,770,786	\$ 11,964	\$ 1,782,750
Penalty and Interest	17,992	3,046	21,038
Investment Revenues	11,144		11,144
Miscellaneous Revenues	341	22,615	22,956
<b>TOTAL REVENUES</b>	<u>\$ 1,800,263</u>	<u>\$ 37,625</u>	<u>\$ 1,837,888</u>
<b>EXPENDITURES/EXPENSES</b>			
Service Operations:			
Public Safety and Security	\$ 656,129	\$	\$ 656,129
Visual Improvements and Mobility	460,613		460,613
Business and Economic Development	75,104		75,104
Staffing and Project Management	236,600		236,600
Administration	103,537		103,537
Capital Outlay	174,634	(174,634)	
Depreciation		128,427	128,427
Debt Service:			
Note Principal	278,068	(278,068)	
Note Interest	1,016		1,016
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 1,985,701</u>	<u>\$ (324,275)</u>	<u>\$ 1,661,426</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (185,438)	\$ 185,438	\$
<b>CHANGE IN NET POSITION</b>		176,462	176,462
<b>FUND BALANCE/NET POSITION - JANUARY 1, 2017</b>	<u>283,693</u>	<u>1,535,688</u>	<u>1,819,381</u>
<b>FUND BALANCE/NET POSITION - DECEMBER 31, 2017</b>	<u>\$ 98,255</u>	<u>\$ 1,897,588</u>	<u>\$ 1,995,843</u>

The accompanying notes to the financial  
statements are an integral part of this report.

**SOUTHWEST MANAGEMENT DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net Change in Fund Balance - Governmental Fund	\$	(185,438)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Governmental funds report assessment revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		11,964
Governmental funds report penalty and interest revenue on assessments when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		3,046
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(128,427)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		174,634
Governmental funds report note principal payments as expenditures. However, in the Statement of Net Position, note principal payments are reported as decreases in long-term liabilities.		<u>300,683</u>
Change in Net Position - Governmental Activities	\$	<u><u>176,462</u></u>

The accompanying notes to the financial statements are an integral part of this report.

**SOUTHWEST MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 1. CREATION OF DISTRICT**

The Greater Sharpstown Management District, now known as the Southwest Management District (the “District”), was created, effective June 17, 2005, by the Texas Legislature under provisions of House Bill No. 3526, of the 79<sup>th</sup> Legislature, Regular Session, 2005, codified as Chapter 3850, Texas Special District Local Laws Code. Pursuant to the provisions of the Act creating the District, the District is empowered to promote, develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, the arts, entertainment, economic development, safety, and the public welfare in the Greater Sharpstown area of City of Houston, Texas. The Board of Directors held its first meeting on August 26, 2005.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the “Commission”).

The District is a political subdivision of the State of Texas governed by an appointed board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately appointed governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

**SOUTHWEST MANAGEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net assets consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net assets consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

**SOUTHWEST MANAGEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental Funds

The District has one governmental fund and considers it a major fund.

General Fund - To account for resources not required to be accounted for in another fund, assessment revenues, costs and general expenditures.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Annual assessments considered available by the District and included in revenue include the 2016 assessment collected during the period October 1, 2016, to December 31, 2017. In addition, assessments collected from January 1, 2017, to December 31, 2017, for the 2015 and prior years are included in revenues. The 2017 annual assessment has been fully deferred to meet the operating expenditures for the 2018 fiscal year.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets, which include landscape enhancement and wayfinding signage projects, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

**SOUTHWEST MANAGEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets (Continued)

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$500 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation.

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. The District's fund balances are classified using the following hierarchy:

*Nonspendable:* amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted:* amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances.

**SOUTHWEST MANAGEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

*Committed:* amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

*Assigned:* amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. As of December 31, 2017, the District has assigned \$91,894 to the 2018 budget deficit.

*Unassigned:* all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3. DEPOSITS AND INVESTMENTS**

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$413,950 and the bank balance was \$526,461. Of

**SOUTHWEST MANAGEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

Deposits (Continued)

the bank balance, \$250,000 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third-party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2017, as listed below:

	Cash
GENERAL FUND	\$ 413,950

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

**SOUTHWEST MANAGEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

The District invests in Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District’s position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas Class.

As of December 31, 2017, the District had the following investments:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
Texas CLASS	\$ 200,144	\$ 200,144	\$ - 0 -	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2017, the District’s investments in Texas CLASS was rated “AAAm” by Standard & Poor’s.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in Texas CLASS to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

**NOTE 4. ANNUAL ASSESSMENT**

In accordance with the Act creating the District, the District may levy ad valorem taxes or assessment fees in accordance with Chapter 375, Local Government Code, to provide improvements and services for a project or activity the District is authorized to acquire, construct, improve, or provide under this Act.

**SOUTHWEST MANAGEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4. ANNUAL ASSESSMENT (Continued)**

On February 28, 2007, an order was adopted granting a petition for a Service Plan and an assessment roll for the District. The order authorized levying an annual assessment which would assure sufficient funding for the services to be provided under the ten year (2006-2015) term of the Service Plan. The order authorized an assessment of \$0.06 per \$100 valuation on land and improvements within the District throughout the term of the Service Plan.

In December 2015, an order was adopted granting a petition for a Service Plan and an assessment roll for the District. The order authorized levying an annual assessment which would assure sufficient funding for the services to be provided under the 15 year (2015-2030) term of the Service Plan. The order authorized a maximum assessment of \$0.12 per \$100 valuation on land and improvements within the District throughout the term of the Service Plan.

During the year ended December 31, 2017, the District levied an assessment of \$0.08 per \$100 of assessed valuation of taxable real property, which resulted in an assessment of \$1,985,557 for the 2017 assessment year. Total revenue of \$1,770,786 has been recorded in the current year. On December 17, 2015, the District approved setting a cap on the assessment rate at \$0.10 per \$100 of assessed valuation for 15 years and setting the assessment rate at \$0.08 per \$100 of assessed valuation for two years.

The District's calendar for collection of the assessments is as follows:

- Levy Date - October 1 or as soon thereafter as practicable
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the assessment payer is liable for penalty and interest.

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended December 31, 2017:

	January 1, 2017	Increases	Decreases	December 31, 2017
<b>Capital Assets Not Being Depreciated</b>				
Construction in Progress	\$ 21,155	\$ 174,634	\$ 195,789	\$ - 0 -
<b>Capital Assets Subject to Depreciation</b>				
Landscaping Enhancements	\$ 1,638,786	\$	\$	\$ 1,638,786
Wayfinding Signage	733,967	195,789		929,756
<b>Total Capital Assets Subject to Depreciation</b>	<b>\$ 2,372,753</b>	<b>\$ 195,789</b>	<b>\$ - 0 -</b>	<b>\$ 2,568,542</b>

**SOUTHWEST MANAGEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 5. CAPITAL ASSETS (Continued)**

	January 1, 2017	Increases	Decreases	December 31, 2017
<b>Accumulated Depreciation</b>				
Landscaping Enhancements	\$ 409,696	\$ 81,939	\$	\$ 491,635
Wayfinding Signage	183,492	46,488		229,980
<b>Total Accumulated Depreciation</b>	<u>\$ 593,188</u>	<u>\$ 128,427</u>	<u>\$ - 0 -</u>	<u>\$ 721,615</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 1,779,565</u>	<u>\$ 67,362</u>	<u>\$ - 0 -</u>	<u>\$ 1,846,927</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 1,800,720</u>	<u>\$ 241,996</u>	<u>\$ 195,789</u>	<u>\$ 1,846,927</u>

**NOTE 6. NOTES PAYABLE**

On May 16, 2011, the District entered into a \$2,500,000 note agreement with Amegy Bank N.A. to fund the District's investment in the construction of landscape enhancements and wayfinding signage. The first draw against this note was made June 13, 2011, in the amount of \$250,000 and the note was activated. The District took additional draws on August 19, 2011, September 14, 2011, October 17, 2011, and December 31, 2011 in the amount of \$350,000, \$285,000, \$200,000 and \$210,000, respectively. Interest on this note was payable monthly as it accrued until November 16, 2011. Effective December 21, 2012, the District and Amegy Bank N.A. modified the agreement. This note is due and payable in monthly principal and interest installments in an amount of \$23,558, commencing on January 16, 2013, and continuing regularly through October 16, 2017. A final installment in the amount of all outstanding principal, plus accrued and unpaid interest, shall be due and payable on November 16, 2017. During the current fiscal year, the District made total payments of \$279,084, of which \$278,068 was principal. This note was paid in full during the current fiscal year.

**NOTE 7. 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, and natural disasters. The District participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide general liability, errors and omissions, law enforcement and real and personal property coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

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**SOUTHWEST MANAGEMENT DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2017**



**SOUTHWEST MANAGEMENT DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Assessment Revenue	\$ 1,868,500	\$ 1,770,786	\$ (97,714)
Penalty and Interest	22,000	17,992	(4,008)
Investment Revenues	3,000	11,144	8,144
Miscellaneous Revenues	<u>850</u>	<u>341</u>	<u>(509)</u>
<b>TOTAL REVENUES</b>	<u>\$ 1,894,350</u>	<u>\$ 1,800,263</u>	<u>\$ (94,087)</u>
<b>EXPENDITURES</b>			
Services Operations:			
Public Safety and Security	\$ 591,424	\$ 656,129	\$ (64,705)
Visual Improvements and Mobility	565,070	460,613	104,457
Business and Economic Development	119,840	75,104	44,736
Staffing and Project Management	236,600	236,600	
Administrative	99,160	103,537	(4,377)
Capital Outlay	193,578	174,634	18,944
Debt Service:			
Principal	279,083	278,068	1,015
Interest	<u>                    </u>	<u>1,016</u>	<u>(1,016)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,084,755</u>	<u>\$ 1,985,701</u>	<u>\$ 99,054</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (190,405)	\$ (185,438)	\$ 4,967
<b>FUND BALANCE - JANUARY 1, 2017</b>	<u>283,693</u>	<u>283,693</u>	<u>                    </u>
<b>FUND BALANCE - DECEMBER 31, 2017</b>	<u>\$ 93,288</u>	<u>\$ 98,255</u>	<u>\$ 4,967</u>

See accompanying independent auditor's report.

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**SOUTHWEST MANAGEMENT DISTRICT**  
**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**DECEMBER 31, 2017**



**SOUTHWEST MANAGEMENT DISTRICT  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

PUBLIC SAFETY AND SECURITY	<u>\$ 656,129</u>
VISUAL IMPROVEMENTS AND MOBILITY	<u>\$ 460,613</u>
BUSINESS AND ECONOMIC DEVELOPMENT	<u>\$ 75,104</u>
STAFFING AND PROJECT MANAGEMENT	<u>\$ 236,600</u>
ADMINISTRATION	<u>\$ 103,537</u>
CAPITAL OUTLAY:	
Capitalized Assets	\$ 174,634
Expenditures Not Capitalized	<u>                    </u>
TOTAL CAPITAL OUTLAY	<u>\$ 174,634</u>
DEBT SERVICE:	
Note Principal	\$ 278,068
Note Interest	<u>1,016</u>
TOTAL DEBT SERVICE	<u>\$ 279,084</u>
TOTAL EXPENDITURES	<u><u>\$ 1,985,701</u></u>

See accompanying independent auditor's report.

**SOUTHWEST MANAGEMENT DISTRICT  
INVESTMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u> Texas CLASS	XXXX9001	Varies	Daily	<u>\$ 200,144</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**SOUTHWEST MANAGEMENT DISTRICT  
ASSESSMENTS LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED DECEMBER 31, 2017**

		Assessments
ASSESSMENT RECEIVABLE - JANUARY 1, 2017	\$ 1,498,245	
Adjustments to Beginning Balance	(94,110)	\$ 1,404,135
Original 2017 Assessment Levy	\$ 1,985,557	
Adjustment to 2017 Assessment Levy		1,985,557
TOTAL TO BE ACCOUNTED FOR		\$ 3,389,692
ASSESSMENT COLLECTIONS:		
Prior Years	\$ 1,365,494	
Current Year	404,335	1,769,829
ASSESSMENT RECEIVABLE - DECEMBER 31, 2017		\$ 1,619,863
ASSESSMENT RECEIVABLE BY YEAR:		
2017		\$ 1,581,222
2016		28,332
2015		5,832
2014		1,699
2013		803
2012		432
2011		168
2010		221
2009 and prior		1,154
TOTAL		\$ 1,619,863

See accompanying independent auditor's report.

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**SOUTHWEST MANAGEMENT DISTRICT  
CHANGES IN ASSESSMENTS RECEIVABLE  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:				
Land, Improvements, Personal Property, Exemptions	<u>\$ 2,481,946,369</u>	<u>\$ 2,346,193,223</u>	<u>\$ 2,155,741,006</u>	<u>\$ 2,010,611,278</u>
ASSESSMENT RATES PER \$100 VALUATION:				
Assessment	<u>\$ 0.08</u>	<u>\$ 0.08</u>	<u>\$ 0.08</u>	<u>\$ 0.06</u>
ADJUSTED ASSESSMENT LEVY*	<u>\$ 1,985,557</u>	<u>\$ 1,876,861</u>	<u>\$ 1,724,592</u>	<u>\$ 1,212,882</u>
PERCENTAGE OF ASSESSMENTS COLLECTED TO ASSESSMENTS LEVIED	<u>20.36 %</u>	<u>98.49 %</u>	<u>99.66 %</u>	<u>99.86 %</u>

\* Based upon the adjusted assessment levy at the time of the audit for the fiscal year in which the assessment was levied.

See accompanying independent auditor's report.

**SOUTHWEST MANAGEMENT DISTRICT  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND - FIVE YEARS**

	Amounts		
	2017	2016	2015
<b>REVENUES</b>			
Assessment Revenue	\$ 1,770,786	\$ 1,675,614	\$ 1,177,274
Penalty and Interest	17,992	33,794	32,308
Investment Revenues	11,144	3,008	567
Miscellaneous Revenues	341	448	
<b>TOTAL REVENUES</b>	<b>\$ 1,800,263</b>	<b>\$ 1,712,864</b>	<b>\$ 1,210,149</b>
<b>EXPENDITURES</b>			
Service Operations:			
Public Safety and Security	\$ 656,129	\$ 452,944	\$ 303,155
Mobility and Transportation			
Visual Improvements and Mobility	460,613	378,679	330,133
Business and Economic Development	75,104	47,152	120,270
Staffing and Project Management	236,600		
Administration	103,537	300,805	136,638
Capital Outlay	174,634	30,235	4,370
Debt Service:			
Principal	278,068	244,936	258,352
Interest	1,016	37,765	24,349
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,985,701</b>	<b>\$ 1,492,516</b>	<b>\$ 1,177,267</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (185,438)</b>	<b>\$ 220,348</b>	<b>\$ 32,882</b>
<b>BEGINNING FUND BALANCE</b>	<b>283,693</b>	<b>63,345</b>	<b>30,463</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 98,255</b>	<b>\$ 283,693</b>	<b>\$ 63,345</b>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2014	2013	2017	2016	2015	2014	2013
\$ 1,134,225	\$ 1,038,624	98.4 %	97.8 %	97.3 %	97.6 %	96.4 %
27,449	13,819	1.0	2.0	2.7	2.4	1.3
561	446	0.6	0.2			
	25,002					2.3
<u>\$ 1,162,235</u>	<u>\$ 1,077,891</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 351,869	\$ 336,601	36.4 %	26.4 %	25.1 %	30.3 %	31.2 %
	47,954					4.4
332,388	258,515	25.6	22.1	27.3	28.6	24.0
90,699	53,185	4.2	2.8	9.9	7.8	4.9
		13.1				
111,216	123,332	5.8	17.6	11.3	9.6	11.4
		9.7	1.8	0.4		
249,810	241,220	15.4	14.3	21.3	21.5	22.4
32,891	41,480	0.1	2.2	2.0	2.8	3.9
<u>\$ 1,168,873</u>	<u>\$ 1,102,287</u>	<u>110.3 %</u>	<u>87.2 %</u>	<u>97.3 %</u>	<u>100.6 %</u>	<u>102.2 %</u>
\$ (6,638)	\$ (24,396)	<u>(10.3) %</u>	<u>12.8 %</u>	<u>2.7 %</u>	<u>(0.6) %</u>	<u>(2.2) %</u>
37,101	61,497					
<u>\$ 30,463</u>	<u>\$ 37,101</u>					

See accompanying independent auditor's report.

**SOUTHWEST MANAGEMENT DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
DECEMBER 31, 2017**

District Mailing Address - Southwest Management District  
c/o Hawes Hill & Associates, LLP  
9610 Long Point Rd, Suite 150  
Houston, TX 77055

District Telephone Number - (713) 595-1200

<b>Board Members</b>	Term of Office (Appointed)	Fees of Office for the year ended <u>December 31, 2017</u>	Expense Reimbursements for the year ended <u>December 31, 2017</u>	<u>Position</u>
Kenneth Li	06/15 06/19 (Appointed)	\$ -0-	\$ -0-	1 Chair
Fred Bhandara	06/15 06/19 (Appointed)	\$ -0-	\$ -0-	2
David Peters	07/16 06/19 (Appointed)	\$ -0-	\$ -0-	3
Harry Shani	06/15 06/19 (Appointed)	\$ -0-	\$ -0-	4 Secretary
Don Wang	06/15 06/19 (Appointed)	\$ -0-	\$ -0-	5
Peter F. Acquaro, Jr	06/17 06/21 (Appointed)	\$ -0-	\$ -0-	6
John Holmes, Jr	06/17 06/21 (Appointed)	\$ -0-	\$ -0-	7
Stephen Le, Jr	06/17 06/21 (Appointed)	\$ -0-	\$ -0-	8
Raj Adnani	06/17 06/21 (Appointed)	\$ -0-	\$ -0-	9

See accompanying independent auditor's report.

**SOUTHWEST MANAGEMENT DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
DECEMBER 31, 2017**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2017</u>	<u>Title</u>
Hawes Hill & Associates, LLP 9610 Long Point Rd, Suite 150 Houston, TX 77055	05/30/07	\$ 261,917	Administrator
Equi-Tax, Inc. P.O. Box 73109 Houston, TX 77273-3109	02/01/07	\$ 25,354	Assessment Collector
Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, TX 77027	04/17/06	\$ 6,379	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065	07/16/07	\$ 8,950	Auditor
Municipal Accounts & Consulting, L.P. 1300 Post Oak Blvd., Suite 1600 Houston, TX 77056	07/10/07	\$ 16,317	Bookkeeper
Linebarger Goggan Blair & Sampson, LLP 1301 Travis, Suite 300 Houston, TX 77002	07/01/07	\$ 4,742	Delinquent Assessment Attorney
Harris County Treasurer (Constables Office) 17423 Katy Freeway Houston, TX 77094	05/20/08	\$ 61,653	Security and Legal Enforcement
Mark M. Burton, P.L.L.C. 1300 Post Oak Blvd., Suite 1600 Houston, TX 77056	02/15/10	\$ 1,975	Annual Financial Report

See accompanying independent auditor's report.

