

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

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Board of Directors
East Montgomery County Improvement District
Montgomery County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of East Montgomery County Improvement District (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.


We have conducted our audit in accordance with auditing standards generally accepted as promulgated within 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 June 30, 2012, 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.

Board of Directors
East Montgomery County Improvement District

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on pages 34 through 36 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.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The supplementary information presented on pages 38 through 40 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 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.


McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

December 6, 2012

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

Our discussion and analysis of East Montgomery County Improvement District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the District's financial statements, which begin on page 8.

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 Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes 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 governmental-wide financial statements and the fund financial statements. The government-wide portion of these statements provides 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 first of the government-wide statements is the Statement of Net Assets. This information is found in the Statement of Net Assets column on pages 8 through 11. The Statement of Net Assets is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets 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 government-wide portion of the Statement of Activities on pages 13 through 16 reports how the District's net assets changed during the current fiscal 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 four governmental fund types. The General Fund accounts for resources not accounted for in another fund, sales tax receipts and general expenditures. The Debt Service Fund accounts for transfers from the General Fund that are restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

FUND FINANCIAL STATEMENTS (Continued)

assigned for the acquisition or construction of major capital facilities and related costs. The Special Revenue Fund (Other Governmental Funds), is used to account for financial resources to be used for special activities performed by the District.

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 Funds Balance Sheet to the Statement of Net Assets on page 12 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 17 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 through 32 in this report.

OTHER INFORMATION

In addition to the basic 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

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$600,930 as of June 30, 2012.

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Assets		
	2012	2011	Change Positive (Negative)
Current and Other Assets	\$ 5,346,767	\$ 5,773,644	\$ (426,877)
Capital Assets (Net of Accumulated Depreciation)	<u>7,577,953</u>	<u>7,054,443</u>	<u>523,510</u>
Total Assets	<u>\$ 12,924,720</u>	<u>\$ 12,828,087</u>	<u>\$ 96,633</u>
Long-Term Liabilities	\$ 11,540,000	\$ 11,965,000	\$ 425,000
Other Liabilities	<u>783,790</u>	<u>878,205</u>	<u>94,415</u>
Total Liabilities	<u>\$ 12,323,790</u>	<u>\$ 12,843,205</u>	<u>\$ 519,415</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ (4,261,594)	\$ (5,211,053)	\$ 949,459
Restricted	1,896,769	2,001,397	(104,628)
Unrestricted	<u>2,965,755</u>	<u>3,194,538</u>	<u>(228,783)</u>
Total Net Assets	<u>\$ 600,930</u>	<u>\$ (15,118)</u>	<u>\$ 616,048</u>

The following table provides a summary of the District's operations for the years ended June 30, 2012, and June 30, 2011. The District's net assets increased by \$616,048.

	Summary of Changes in the Statement of Activities		
	2012	2011	Change Positive (Negative)
Revenues:			
Sales Tax Revenues	\$ 5,370,992	\$ 4,918,276	\$ 452,716
Other Revenues	<u>190,162</u>	<u>190,299</u>	<u>(137)</u>
Total Revenues	\$ 5,561,154	\$ 5,108,575	\$ 452,579
Total Expenses	<u>4,945,106</u>	<u>5,346,448</u>	<u>401,342</u>
Change in Net Assets	\$ 616,048	\$ (237,873)	\$ 853,921
Net Assets, Beginning of Year	<u>(15,118)</u>	<u>222,755</u>	<u>(237,873)</u>
Net Assets, End of Year	<u>\$ 600,930</u>	<u>\$ (15,118)</u>	<u>\$ 616,048</u>

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2012, were \$4,407,178, a decrease of \$300,238 from prior year.

The General Fund fund balance decreased by \$158,553, primarily due to transfers to the Debt Service Fund to provide for payment on long-term debt and economic development costs.

The Debt Service Fund fund balance decreased by \$106,322 due to debt service interest and principal costs being greater than the amount of funds transferred from the General Fund.

The Capital Projects Fund fund balance increased by \$93 due to investment revenues.

The Other Governmental Funds fund balance decreased by \$35,456 due to special events revenue being lower than expenditures for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$89,248 more than budgeted revenues, primarily due to greater than anticipated sales tax revenues received. Actual expenditures were \$92,044 less than budgeted.

CAPITAL ASSETS

The District's investment in capital assets as of June 30, 2012, amounts to \$7,577,953 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment.

Capital Assets At Year-End, Net of Accumulated Depreciation

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Land and Land Improvements	\$ 2,617,956	\$ 1,925,854	\$ 692,102
Capital Assets Net of Accumulated Depreciation:			
Buildings and Equipment	<u>4,959,997</u>	<u>5,128,589</u>	<u>(168,592)</u>
Total Net Capital Assets	<u>\$ 7,577,953</u>	<u>\$ 7,054,443</u>	<u>\$ 523,510</u>

Additional information on the District's capital assets can be found in Note 7 of this report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$11,965,000. The changes in the debt position of the District during the fiscal year ended June 30, 2012, are summarized as follows:

Bond Debt Payable, July 1, 2011	\$ 12,395,000
Less: Bond Principal Paid	<u>430,000</u>
Bond Debt Payable, June 30, 2012	<u>\$ 11,965,000</u>

The District's underlying rating is "A." The Series 2009 and Series 2010 Bonds carry an insured rating of "AA-" by S&P based on insurance issued by Assured Guaranty. The above ratings are as of June 30, 2012, and reflect all rating changes during the current fiscal year.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to East Montgomery County Improvement District, 3700 Buffalo Speedway, Suite 830, Houston, TX 77098.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2012**

	General Fund	Debt Service Fund
ASSETS		
Cash, Note 5	\$ 656,898	\$ 279,265
Investments, Note 5	600,219	1,742,155
Receivables:		
Sales Taxes	969,738	
Accrued Interest	440	7,888
Other	99	
Prepaid Costs	16,103	
Due from Other Funds, Note 2	19,416	
Due from Other Governmental Units	50,769	
Unamortized Bond Issuance Costs		
Unamortized Bond Discount		
Land, Note 7		
Capital Assets (Net of Accumulated Depreciation), Note 7		
TOTAL ASSETS	<u>\$2,313,682</u>	<u>\$ 2,029,308</u>

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

Capital Projects Fund	Other Governmental Funds	Total	Adjustments	Statement of Net Assets
\$ 474	\$ 18,936	\$ 955,573	\$	\$ 955,573
94,592	50,000	2,486,966		2,486,966
		969,738		969,738
	300	8,628		8,628
		99		99
		16,103		16,103
		19,416	(19,416)	
		50,769		50,769
			682,285	682,285
			176,606	176,606
			2,617,956	2,617,956
			4,959,997	4,959,997
<u>\$ 95,066</u>	<u>\$ 69,236</u>	<u>\$ 4,507,292</u>	<u>\$ 8,417,428</u>	<u>\$ 12,924,720</u>

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2012

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 80,698	\$
Accrued Interest Payable		
Due to Other Funds, Note 2		666
Unamortized Bond Premium		
Long-Term Liabilities:		
Bonds Payable, Due Within One Year, Note 3		
Bonds Payable, Due After One Year, Note 3		
TOTAL LIABILITIES	\$ 80,698	\$ 666
FUND BALANCES/NET ASSETS		
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 16,103	\$
Restricted for Capital Projects		
Restricted for Debt Service		2,028,642
Restricted for Hotel/Motel Tax Obligations	299,916	
Committed for Economic Development, Note 13	1,535,000	
Assigned for Economic Development		
Unassigned	381,965	
TOTAL FUND BALANCES	\$ 2,232,984	\$ 2,028,642
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,313,682	\$ 2,029,308
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
TOTAL NET ASSETS		

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

Capital Projects Fund	Other Governmental Funds	Total	Adjustments	Statement of Net Assets
\$	\$	\$ 80,698	\$	\$ 80,698
			226,939	226,939
	18,750	19,416	(19,416)	
			51,153	51,153
			425,000	425,000
			<u>11,540,000</u>	<u>11,540,000</u>
<u>\$ -0-</u>	<u>\$ 18,750</u>	<u>\$ 100,114</u>	<u>\$ 12,223,676</u>	<u>\$ 12,323,790</u>
\$	\$	\$ 16,103	\$ (16,103)	\$
95,066		95,066	(95,066)	
		2,028,642	(2,028,642)	
		299,916	(299,916)	
		1,535,000	(1,535,000)	
	50,486	50,486	(50,486)	
		<u>381,965</u>	<u>(381,965)</u>	
<u>\$ 95,066</u>	<u>\$ 50,486</u>	<u>\$ 4,407,178</u>	<u>\$ (4,407,178)</u>	<u>\$ -0-</u>
<u>\$ 95,066</u>	<u>\$ 69,236</u>	<u>\$ 4,507,292</u>		
			\$ (4,261,594)	\$ (4,261,594)
			1,801,703	1,801,703
			95,066	95,066
			<u>2,965,755</u>	<u>2,965,755</u>
			<u>\$ 600,930</u>	<u>\$ 600,930</u>

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Governmental Funds		\$ 4,407,178
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Unamortized bond issuance costs, bond discounts and bond premiums in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		807,738
Capital assets and land used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		7,577,953
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on the long-term debt through fiscal year end.		(226,939)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:		
Bonds Payable Within One Year	\$ (425,000)	
Bonds Payable After One Year	<u>(11,540,000)</u>	<u>(11,965,000)</u>
Total Net Assets - Governmental Activities		<u>\$ 600,930</u>

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

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**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Debt Service Fund
REVENUES		
Sales Taxes, Note 6	\$ 5,370,992	\$
Investment Revenues	2,601	11,742
Hotel/Motel Taxes	103,297	
Building Rents, Note 8	48,000	
Industrial Park Land Sale	114,800	
Miscellaneous Revenues	6,558	
TOTAL REVENUES	\$ 5,646,248	\$ 11,742
EXPENDITURES/EXPENSES		
Service Operations:		
Programs:		
Community Development, Note 11	\$ 435,511	\$
Economic Development	1,484,046	
Scholarships, Note 10	605,920	
Project Rex/Earthquest	253,558	
Administrative:		
Professional Fees	165,020	
Contracted Services	38,323	1,074
Salaries	302,338	
Payroll Taxes	19,397	
Benefits and Retirement	81,807	
Mileage	26,048	
Payroll Costs	2,654	
Advertising	16,584	
Dues	12,114	
Election Expense	42,344	
Office Equipment Lease	6,638	
Postage	1,992	
Computers and Software	12,570	
Office Supplies/Expense	17,744	
Subscriptions	1,532	
Travel	84,306	
Telephone	33,709	
Other	942	

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

Capital Projects Fund	Other Governmental Funds	Total	Adjustments	Statement of Activities
\$	\$	\$	\$	\$
93	371	5,370,992		5,370,992
		14,807		14,807
		103,297		103,297
		48,000		48,000
		114,800	(114,800)	
	17,500	24,058		24,058
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
93	17,871	5,675,954	(114,800)	5,561,154
\$	\$	\$	\$	\$
		435,511		435,511
		1,484,046		1,484,046
		605,920		605,920
		253,558		253,558
		165,020		165,020
		39,397		39,397
		302,338		302,338
		19,397		19,397
		81,807		81,807
		26,048		26,048
		2,654		2,654
		16,584		16,584
		12,114		12,114
		42,344		42,344
		6,638		6,638
		1,992		1,992
		12,570		12,570
		17,744		17,744
		1,532		1,532
		84,306		84,306
		33,709		33,709
	53,327	54,269		54,269

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Debt Service Fund
EXPENDITURES/EXPENSES (Continued)		
Building:		
Building Costs	\$ 73,367	\$
Contract Labor	14,672	
Contract Labor – Maintenance	49,495	
Contract Labor – Contract Management	56,147	
Waste Removal	2,930	
Insurance	21,519	
Grounds Maintenance	13,006	
Pond Care	659	
Repairs and Maintenance Building	80,327	
Security	3,426	
Utilities	112,406	
Depreciation, Note 7		
Capital Outlay	806,902	
Debt Service:		
Bond Principal		430,000
Bond Interest		611,838
TOTAL EXPENDITURES/EXPENSES	\$ 4,879,953	\$ 1,042,912
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 766,295	\$ (1,031,170)
OTHER FINANCING SOURCES (USES)		
Transfers In/(Out), Note 4	\$ (924,848)	\$ 924,848
NET CHANGE IN FUND BALANCES	\$ (158,553)	\$ (106,322)
CHANGE IN NET ASSETS		
FUND BALANCES/NET ASSETS – JULY 1, 2011	2,391,537	2,134,964
FUND BALANCES/NET ASSETS – JUNE 30, 2012	\$ 2,232,984	\$ 2,028,642

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

Capital Projects Fund	Other Governmental Funds	Total	Adjustments	Statement of Activities
\$	\$	\$	\$	\$
		73,367		73,367
		14,672		14,672
		49,495		49,495
		56,147		56,147
		2,930		2,930
		21,519		21,519
		13,006		13,006
		659		659
		80,327		80,327
		3,426		3,426
		112,406		112,406
			168,592	168,592
		806,902	(806,902)	
		430,000	(430,000)	
		611,838	37,224	649,062
<u>\$ -0-</u>	<u>\$ 53,327</u>	<u>\$ 5,976,192</u>	<u>\$ (1,031,086)</u>	<u>\$ 4,945,106</u>
<u>\$ 93</u>	<u>\$ (35,456)</u>	<u>\$ (300,238)</u>	<u>\$ 916,286</u>	<u>\$ 616,048</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ 93	\$ (35,456)	\$ (300,238)	\$ 300,238	\$
			616,048	616,048
<u>94,973</u>	<u>85,942</u>	<u>4,707,416</u>	<u>(4,722,534)</u>	<u>(15,118)</u>
<u>\$ 95,066</u>	<u>\$ 50,486</u>	<u>\$ 4,407,178</u>	<u>\$ (3,806,248)</u>	<u>\$ 600,930</u>

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Governmental Funds	\$ (300,238)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds do not account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expense is recorded.	(168,592)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Assets, capital assets are increased by new purchases and reduced by assets disposed of.	692,102
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Assets, bond principal payments are reported as decreases in long-term liabilities and the Statement of Activities is not affected.	430,000
Governmental funds report interest expenditures on bonds as expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on bonds through fiscal year end.	<u>(37,224)</u>
Change in Net Assets - Governmental Activities	<u>\$ 616,048</u>

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. CREATION OF DISTRICT

East Montgomery County Improvement District of Montgomery County, Texas, a special district and political subdivision of the State of Texas, was created and established by Senate Bill No. 921 passed by the 75th Legislature, Regular Session, and signed on June 20, 1997. Senate Bill No. 1648 amended Senate Bill No. 921 and was signed into law by the Governor on May 20, 1999. Senate Bill No. 1772 amended Senate Bill No. 921, as amended by Senate Bill 1648, and was signed into law by the Governor during the 77th Texas State legislative session. Senate Bill No. 1772 took effect September 1, 2001. House Bill No. 4015 amended Senate Bill No. 921, as amended by Senate Bill 1648 and Senate Bill 1772, and was signed into law by the Governor during the 80th Texas State legislative session. Senate Bill 2453 amended House Bill No. 4015 during the 81st Texas State legislative session. The District was created to promote, develop, encourage, and maintain employment, commerce, economic development, and public welfare in the eastern area of Montgomery County. The District's Board of Directors held its organizational meeting on June 24, 1997, and sold its first series of bonds in October 2000.

The boundaries of the District, as amended by Senate Bill 1772, are coextensive with the boundaries of the New Caney Independent School District and the Splendora Independent School District, as those boundaries existed on January 1, 1997, but the District does not include any portion of the City of Houston as it existed on January 1, 1997, and does not include any portion of the New Caney Independent School District as the boundaries of the District exist on September 1, 2001, or as they may exist in the future, located in Harris County.

The District is governed by an eight member Board of Directors and employs permanent staff, which includes a President/CEO. The Commissioners Court of Montgomery County appointed the eight initial directors. All current directors were elected by voters within the District.

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 GASB has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent municipality. The District does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the District's basic financial statements.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – 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 Assets – This component of net assets consists of external constraints placed on the use of net 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 Assets – This component of net assets consists of net assets that do not meet the definition of “Restricted” or “Invested in Capital Assets, Net of Related Debt.”

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 Assets and the Statement of Activities display information about the District as a whole. The District’s Statement of Net Assets 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 Assets 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 Assets.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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.

Governmental Funds

The District has four governmental funds and considers the General Fund, Debt Service Fund and Capital Projects Fund to be major funds.

General Fund – To account for resources not required to be accounted for in another fund, sales tax receipts, hotel/motel tax receipts and general expenditures.

Debt Service Fund – To account for financial resources restricted, committed or assigned for servicing bond debt.

Capital Projects Fund – To account for financial resources restricted, committed or assigned for the acquisition or construction of major capital facilities.

Other Governmental Funds – To account for financial resources restricted, committed or assigned for special activities performed by the District.

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 collectible 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 collectible 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.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as another financing source or use. 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. At June 30, 2012, the Debt Service Fund owed the General Fund \$666 for Series 2010 Refunding Bond issuance costs. The Special Revenue Fund (special events) owes the General Fund \$18,750.

Capital Assets

Capital assets, which include office equipment and fixtures and vehicles, are reported in the government-wide Statement of Net Assets. 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 an expenditure 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.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Building and Improvements	40
Equipment	7
Furniture	7

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 during the current fiscal year.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

The District has five employees. The District makes matching contributions into a 401(k) plan for its employees. See Note 9 for more information on the retirement plan.

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 Assets 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 assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

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 appropriate resources. Operating statements of governmental fund types report increases and decreases in available spendable resources.

Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, requires the classification of fund balances in governmental funds 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.

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.

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.

Unassigned: all other spendable amounts in the General Fund.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

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. BONDS PAYABLE

	Series 2009 Sales Tax Revenue Bonds	Series 2010 Sales Tax Revenue Refunding Bonds
Amount Outstanding - June 30, 2012	\$ 7,635,000	\$ 4,330,000
Interest Rates	5.50% - 6.625%	2.00% - 3.375%
Maturity Dates – Serially Beginning/Ending	August 15, 2013/2039	August 15, 2013/2022
Interest Payment Dates	August 15/ February 15	August 15/ February 15
Callable Dates	August 15, 2022**	August 15, 2016*

* Or any date thereafter, at the option of the District, as a whole or in part, at a price equal to par plus accrued interest to the date fixed for redemption.

** Bonds maturing on or after August 15, 2023, are callable on August 15, 2022 or any date thereafter, at the option of the District, as a whole or in part, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Term bonds maturing on August 15, 2029, and August 15, 2039, are subject to mandatory sinking fund redemption commencing on August 15, 2025, and August 15, 2030, respectively. The Term Bonds of a given maturity required to be redeemed shall be selected by lot or other customary random method.

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2012:

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3. BONDS PAYABLE (Continued)

Bond Debt Payable – July 1, 2011	\$ 12,395,000
Less: Bond Principal Paid	<u>430,000</u>
Total Bond Debt Payable – June 30, 2012	<u>\$ 11,965,000</u>
Bond Debt Payable –	
Due Within One Year	\$ 425,000
Due After One Year	<u>11,540,000</u>
Total Bond Debt Payable – June 30, 2012	<u>\$ 11,965,000</u>
Original Bonds Issued	<u>\$ 14,860,000</u>
Refunding Bonds Issued	<u>\$ 4,760,000</u>

As of June 30, 2012, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 425,000	\$ 604,137	\$ 1,029,137
2014	435,000	592,836	1,027,836
2015	445,000	581,137	1,026,137
2016	455,000	567,162	1,022,162
2017	475,000	550,662	1,025,662
2018-2022	2,635,000	2,477,627	5,112,627
2023-2027	1,370,000	2,033,180	3,403,180
2028-2032	1,465,000	1,665,772	3,130,772
2033-2037	2,295,000	1,058,509	3,353,509
2038-2040	<u>1,965,000</u>	<u>203,226</u>	<u>2,168,226</u>
	<u>\$ 11,965,000</u>	<u>\$ 10,334,248</u>	<u>\$ 22,299,248</u>

Revenues pledged to service the debt from the outstanding bonds of the District include 3/4% of the sales tax collections within the District. See also 6.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

- A. The bond orders state that any profits realized from or interest accruing on investments shall belong to the fund from which the moneys for such investments were taken; provided, however, that at the discretion of the Board of Directors the profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund. During the current fiscal year, all profits and interest earned on investments remained with the fund from which the monies for such investment were taken.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS (Continued)

- B. The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to each nationally recognized municipal securities information repository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year shall continue to be provided through the life of the bonds.
- C. In accordance with the 2009 Bond Order, a portion of the bond proceeds were deposited into the Debt Service Fund and reserved for payment of bond interest during the construction period. The bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

Bond Interest Reserve – July 1, 2011	\$	285,839
Less: Interest Paid		<u>285,839</u>
Bond Interest Reserve – June 30, 2012	\$	<u>-0-</u>

- D. The bond orders generally require that the District maintain, in its Debt Service Fund, a “Required Reserve” in an amount equal to the maximum annual principal and interest requirements on the Outstanding Parity Bonds during the fiscal year. In addition, the bond orders generally require that in each fiscal year, as the first use of Pledged Revenues, the District transfer or cause to be transferred, as received, all Pledged Revenues on deposit in or belonging to the General Fund to the credit of the Debt Service Fund in an amount sufficient, together with other amounts, if any, then on hand in the Debt Service Fund and available for such purpose, to pay (i) Debt Service on the Outstanding Parity Bonds, (ii) Paying Agent charges and expenses in respect to the bonds, the Outstanding Parity Bonds, and (iii) projected excess arbitrage earnings in respect of the Outstanding Parity Bonds to become payable in that fiscal year.

The District has adopted a policy of making monthly transfers into the Debt Service Fund of amounts which result in both requirements being fully satisfied on the first day of its fiscal year. The District transferred \$924,848 from the General Fund to the Debt Service Fund to provide for current and future debt service payments on the outstanding bonds.

NOTE 5. 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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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 District 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 \$3,335,573 and the bank balance was \$3,467,373. Of the bank balance, \$2,880,000 was covered by federal depository insurance, 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 Assets at June 30, 2012, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 656,898	\$ 600,000	\$ 1,256,898
DEBT SERVICE FUND	279,265	1,730,000	2,009,265
CAPITAL PROJECTS FUND	474		474
OTHER GOVERNMENTAL FUNDS	<u>18,936</u>	<u>50,000</u>	<u>68,936</u>
TOTAL DEPOSITS	<u>\$ 955,573</u>	<u>\$ 2,380,000</u>	<u>\$ 3,335,573</u>

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.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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. Authorized investments are summarized as follows: (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, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other 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 secured by delivery, (9) certain 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.

All investments are recorded at cost, which the District considers to be fair value. The District invests in TexPool, an external investment pool that is not SEC-registered. The Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors Inc. manages the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of the pool shares.

As of June 30, 2012, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
GENERAL FUND -					
TexPool	\$ 219	\$ 219	\$	\$	\$
Certificates of Deposit	<u>600,000</u>	<u>600,000</u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	<u>\$ 600,219</u>	<u>\$ 600,219</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
DEBT SERVICE FUND -					
TexPool	\$ 12,155	\$ 12,155	\$	\$	\$
Certificates of Deposit	<u>1,730,000</u>	<u>1,730,000</u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	<u>\$ 1,742,155</u>	<u>\$ 1,742,155</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
CAPITAL PROJECTS FUND -					
TexPool	<u>\$ 94,592</u>	<u>\$ 94,592</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
OTHER GOVERNMENTAL -					
Certificates of Deposit	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Total	<u>\$ 2,486,966</u>	<u>\$ 2,486,966</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2012, the District's investment in TexPool was rated "AAAm" by Standard and 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 TexPool 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.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets. All cash and investments of the Other Governmental Fund are restricted for the special purpose of the fund.

NOTE 6. SALES AND USE TAX REVENUES

In September 1997, the voters of the District authorized the District's Board of Directors to levy and collect a 1% sales and use tax within the District, subject to the applicable provisions of the Texas Tax Code. In November 2009, an additional local sales and use tax of 1/2% was approved by voters. The District relies on this tax for the funding of substantially all of its programs, functions and services. Three-quarters of one percent (3/4%) of the sales tax collections will be pledged to the payment of bonds. The District collected \$5,370,992 from the levy of the sales and use tax for the fiscal year ended June 30, 2012.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012:

	July 1, 2011	Net Change	June 30, 2012
Capital Assets Not Being Depreciated			
Land and Land Improvements	\$ 1,925,854	\$ 692,102	\$ 2,617,956
Capital Assets at Historical Costs Subject to Depreciation			
Buildings and Equipment	\$ 7,329,438	\$ -0-	\$ 7,329,438

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7. CAPITAL ASSETS (Continued)

	<u>July 1, 2011</u>	<u>Increases</u>	<u>June 30, 2012</u>
Less Accumulated Depreciation			
Buildings and Equipment	\$ 2,200,849	\$ 168,592	\$ 2,369,441
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 5,128,589</u>	<u>\$ (168,592)</u>	<u>\$ 4,959,997</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 7,054,443</u>	<u>\$ 523,510</u>	<u>\$ 7,577,953</u>

When completed, certain utilities are conveyed to East Montgomery County Municipal Utility District No. 3 for operations and maintenance.

NOTE 8. LEASE AGREEMENT

The District has entered into a lease agreement with the Lone Star College System for lease payments totaling \$4,000 per month. The District recorded lease revenue of \$48,000 during the current fiscal year.

NOTE 9. QUALIFIED RETIREMENT PLAN

On January 1, 2006, the District established a 401(k) plan for eligible employees. The full name of the plan is East Montgomery County Improvement District 401(k) Plan, and records are maintained on a 12-month calendar year. Benefits provided by the plan are not insured by the Pension Benefit Guaranty Corporation (PBGC). The Plan's administrator is the District, and contributions are held in a Trust Fund with trustees responsible for safekeeping. Eligibility requirements include completion of six months of service and attainment of the age of 21.

The District makes matching contributions up to 8% of each employee's contribution into the plan. All contributions are tax deferred. During the current fiscal year, the District recorded \$13,170 as its contribution to the plan.

NOTE 10. SCHOLARSHIP PROGRAM

The District established an endowed scholarship program with East Montgomery County Scholarship Foundation ("EMCSF"). The District has committed to make an Annual Scholarship Contribution which refers to the total contribution to be made by the District to EMCSF consisting of an amount sufficient to fund 100% of the annual scholarship cost and any administrative costs of EMCSF and an annual contribution of an amount not less than \$50,000 for the growth of the EMCID Educational Scholarship Endowment Fund until the fund is sufficient to generate annual interest and earnings in an amount adequate to pay for the annual scholarships awarded under the

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10. SCHOLARSHIP PROGRAM (Continued)

Scholarship Program and administrative costs of EMCSF. Contribution expense was recognized under the current agreement for the year ended June 30, 2012, for \$605,000 and related expenses of \$920.

NOTE 11. COMMUNITY DEVELOPMENT GRANTS

From time to time, the District enters into agreements to promote the health, safety and general welfare of its residents, employers, employees and consumers in the District and of the general public to promote, develop encourage and maintain employment, commerce, economic development and the public welfare in the eastern area of Montgomery County. During the current fiscal year, the District contributed \$435,511 in community grants to various organizations.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Utility Development Agreement with East Montgomery County Municipal Utility District No. 3

The District entered into an agreement with East Montgomery County Municipal Utility District No. 3 ("District No. 3") for the construction of certain utilities necessary to provide water, sewer, and drainage services to the service area, and to convey those utilities to District No. 3 upon their completion. Under the agreement, the costs, including interest, are to be reimbursed with the proceeds of bonds to be issued by District No. 3. During the current fiscal year, the District received \$422,145 from District No. 3 from its 2012 bond issue for reimbursement of these costs.

Joint Development Agreement with Wal-Mart Stores East, Inc.

The District has agreed to reimburse Wal-Mart Stores East, Inc. ("Wal-Mart") for certain construction costs up to \$565,000. Pursuant to the terms of the Joint Development Agreement, Wal-Mart is to request reimbursement by providing detailed cost substantiation. To date, the District has received detailed cost substantiation for the amount of \$150,000 with a request for reimbursement, which was reimbursed in a prior fiscal year. The District restricted a portion of its fund balance for Economic Development in the General Fund, a part of which includes this reserve of \$415,000 for the remaining commitment.

The supporting documentation required to claim the funds under the agreement has not been provided, and damages to adjacent property may effectively offset any claim to the reserve.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

Joint Agreement with Montgomery County Emergency Services District No. 7

On September 25, 2007, the District approved an agreement with Montgomery County Emergency Services District No. 7 ("ESD No. 7") in the amount of \$1,500,000 to fund a loan to expand their service capabilities. The agreement was to fund \$300,000 per year over five years, interest free. ESD No. 7 agreed to repay the loan on or before November 30, 2017.

That agreement was amended on September 22, 2009, to convert the previous amount paid to a grant and to provide for an additional grant of \$600,000 to be funded over two years beginning in December 2012. As a condition of the grants, ESD No. 7 is to provide an accounting of its revenues and expenditures.

The agreements, as amended, allow for the District to make additional payments to ESD No. 7 based on sales tax collections. The payments currently are \$19,417 per month. In the current fiscal year, the District made payments of \$533,004 to ESD No. 7.

Joint Agreement with Montgomery County Emergency Services District No. 6

On April 3, 2008, the District entered into an agreement with Montgomery County Emergency Services District No. 6 ("ESD No. 6") for a loan in the amount of \$997,296, funded at a rate of \$62,331 per month for 16 months beginning October 2008. The loan was made interest free to ESD No. 6. The entire loan amount has been paid to ESD No. 6. The loan has not been recorded as a receivable from ESD No. 6 as it is expected to eventually be treated as a grant to ESD No. 6.

ESD No. 6 agreed to start loan repayment beginning in March 2014 and continuing each March thereafter. During the term of the agreement it will calculate the amount of sales tax revenue it has received during the previous calendar year from sales occurring within the Economic Development Zones (EDZ) located within the boundaries of ESD No. 6 and will provide an accounting of the sales tax receipts along with a loan repayment equal to 50% of the amount calculated to have been received. The obligation to provide such accounting and repayment will terminate on the earlier to occur of full repayment of the amount loaned as described in the agreement or March 31, 2034, the expiration date of the agreement. If the terms for repayment do not appear to be feasible, a meeting can be scheduled in calendar year 2013 to discuss modification of the loan repayment terms.

On June 16, 2009, the District approved an agreement with ESD No. 6 to provide for the greater of a monthly donation of \$62,331 beginning July 2010 or additional sales taxes collected in the ESD No. 6 area to be used for the expansion of fire services within the District during the term of the agreement (25 years). The amount to be paid is to be determined annually on April 1st.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

Joint Agreement with Montgomery County Emergency Services District No. 6 (Continued)

On September 10, 2009, an amendment to that agreement set the monthly donation at \$58,164. During the current fiscal year, the District made payments of \$697,972 to ESD No. 6.

Joint Agreement with Montgomery County Emergency Services District No. 11

On September 2, 2009, the District agreed to make an annual donation to Montgomery County Emergency Services District No. 11 ("ESD No. 11") in the amount of \$100,000 beginning April 1, 2010, and continuing each year during the term of the agreement (25 years) for improvements that improve, enhance, or support public safety and security, fire protection, emergency medical services, or law enforcement in the District. The District paid \$100,000 to ESD No. 11 during the current fiscal year.

NOTE 13. COMMITTED FOR ECONOMIC DEVELOPMENT

The Board of Directors has elected to place restrictions on a portion of its General Fund fund balance for several economic development and community projects totaling \$1,535,000. Included in this amount is \$415,000 set aside to meet the obligation to Wal-Mart as described in Note 12.

NOTE 14. 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 for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2012

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Sales Tax Revenues	\$ 5,100,000	\$ 5,370,992	\$ 270,992
Investment Revenues	11,000	2,601	(8,399)
Hotel/Motel Taxes	85,000	103,297	18,297
Building Rents	51,000	48,000	(3,000)
Industrial Park Land Sale	300,000	114,800	(185,200)
Miscellaneous Revenues	<u>10,000</u>	<u>6,558</u>	<u>(3,442)</u>
TOTAL REVENUES	<u>\$ 5,557,000</u>	<u>\$ 5,646,248</u>	<u>\$ 89,248</u>
EXPENDITURES			
Service Operations:			
Programs:			
Community Development:			
ESD No. 6 Donation	\$ 698,000	\$ 848,392	\$ (150,392)
ESD No. 7 Grant	533,000	382,584	150,416
ESD No. 11 Donation	100,000	100,000	
Administrative	500	25	475
Legal Fees	5,000	1,692	3,308
Special Events	150,000	190,212	(40,212)
Community Development Grants	250,000	243,582	6,418
Scholarship Program	<u>600,000</u>	<u>605,920</u>	<u>(5,920)</u>
Total Community Development Expenditures	<u>\$ 2,336,500</u>	<u>\$ 2,372,407</u>	<u>\$ (35,907)</u>
Economic Development:			
Marketing	\$ 114,000	\$ 77,034	\$ 36,966
Legal	30,000	14,670	15,330
Land/Building/Industrial	20,000	61,272	(41,272)
Industrial Park Engineering	20,000	94	19,906
Industrial Park Capital Improvements	<u>797,000</u>	<u>806,902</u>	<u>(9,902)</u>
Total Economic Development Expenditures	<u>\$ 981,000</u>	<u>\$ 959,972</u>	<u>\$ 21,028</u>
Earth Quest:			
Economic Development	\$ 145,000	\$ 141,395	\$ 3,605
Engineering	15,000	23,290	(8,290)
Legal	<u>30,000</u>	<u>88,873</u>	<u>(58,873)</u>
Total Earth Quest	<u>\$ 190,000</u>	<u>\$ 253,558</u>	<u>\$ (63,558)</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

EXPENDITURES (Continued)	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Administrative:			
Salaries	\$ 340,000	\$ 302,338	\$ 37,662
Payroll Taxes	26,000	19,397	6,603
Payroll Expense	2,700	2,654	46
Retirement	23,000	18,670	4,330
Health Insurance	74,500	63,137	11,363
Mileage	30,000	26,048	3,952
Dues/Professional Memberships	12,000	12,114	(114)
Election Expense	20,000	42,344	(22,344)
Subscriptions	5,000	1,532	3,468
Office Equipment Lease	11,000	6,638	4,362
Computers/Software	20,000	12,570	7,430
Travel & Training	115,000	84,306	30,694
Legal Fees	95,000	101,373	(6,373)
Advertising	25,000	16,584	8,416
Audit Fees	15,000	20,100	(5,100)
Engineering Fees	33,000	41,567	(8,567)
Financial Advisor	7,000	1,980	5,020
Accounting	25,000	38,323	(13,323)
Supplies	12,000	8,612	3,388
Printing	10,000	702	9,298
Delivery Fees	6,000	8,430	(2,430)
Postage	8,000	1,992	6,008
Telephone	30,000	33,709	(3,709)
Miscellaneous	<u>21,000</u>	<u>942</u>	<u>20,055</u>
Total Administrative Expenditures	<u>\$ 966,200</u>	<u>\$ 866,062</u>	<u>\$ 100,138</u>
Building:			
Grounds Maintenance	\$ 20,000	\$ 13,006	\$ 6,994
Security	7,000	3,426	3,574
Pond Care	1,000	659	341
Utilities	105,000	112,406	(7,406)
Insurance-Building	41,000	21,519	19,481
Waste Removal	3,000	2,930	70
Repairs & Maintenance-Building	82,000	80,327	1,673
Contract Labor	103,000	120,314	(17,314)
Capital and Other	<u>136,300</u>	<u>73,367</u>	<u>62,933</u>
Total Building Expenditures	<u>\$ 498,300</u>	<u>\$ 427,954</u>	<u>\$ 70,346</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance Positive (Negative)
TOTAL EXPENDITURES	\$ 4,972,000	\$ 4,879,953	\$ 92,047
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 585,000	\$ 766,295	\$ 181,295
OTHER FINANCING SOURCES (USES)			
Building Transfers to Debt Service	\$ (1,080,000)	\$ (924,848)	\$ 155,152
Proceeds from MUD No. 3	<u>495,000</u>	<u> </u>	<u>(495,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (585,000)	\$ (924,848)	\$ (339,848)
NET CHANGE IN FUND BALANCE	\$ -0-	\$ (158,553)	\$ (158,553)
FUND BALANCE – JULY 1, 2011	<u>2,391,537</u>	<u>2,391,537</u>	<u> </u>
FUND BALANCE – JUNE 30, 2012	\$ <u>2,391,537</u>	\$ <u>2,232,984</u>	\$ <u>(158,553)</u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

SUPPLEMENTARY INFORMATION

JUNE 30, 2012

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2012**

SERIES - 2009

<u>Due During Fiscal Years Ending June 30</u>	<u>Principal Due August 15</u>	<u>Interest Due August 15/ February 15</u>	<u>Total</u>
2013	\$ 65,000	\$ 485,556	\$ 550,556
2014	70,000	481,506	551,506
2015	75,000	477,156	552,156
2016	80,000	472,506	552,506
2017	90,000	467,406	557,406
2018	100,000	461,706	561,706
2019	110,000	455,406	565,406
2020	120,000	448,656	568,656
2021	130,000	441,631	571,631
2022	140,000	434,206	574,206
2023	155,000	425,900	580,900
2024	170,000	416,556	586,556
2025	185,000	406,349	591,349
2026	200,000	394,906	594,906
2027	220,000	382,044	602,044
2028	240,000	367,956	607,956
2029	265,000	352,491	617,491
2030	290,000	335,494	625,494
2031	320,000	316,012	636,012
2032	350,000	293,819	643,819
2033	380,000	269,637	649,637
2034	415,000	243,303	658,303
2035	455,000	214,484	669,484
2036	500,000	182,850	682,850
2037	545,000	148,235	693,235
2038	595,000	110,472	705,472
2039	655,000	69,070	724,070
2040	<u>715,000</u>	<u>23,684</u>	<u>738,684</u>
TOTAL	<u>\$ 7,635,000</u>	<u>\$ 9,578,997</u>	<u>\$ 17,213,997</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2012**

SERIES - 2010 REFUNDING

<u>Due During Fiscal Years Ending June 30</u>	<u>Principal Due August 15</u>	<u>Interest Due August 15/ February 15</u>	<u>Total</u>
2013	\$ 360,000	\$ 118,581	\$ 478,581
2014	365,000	111,330	476,330
2015	370,000	103,981	473,981
2016	375,000	94,656	469,656
2017	385,000	83,256	468,256
2018	390,000	71,631	461,631
2019	400,000	59,781	459,781
2020	405,000	47,707	452,707
2021	415,000	35,147	450,147
2022	425,000	21,756	446,756
2023	440,000	7,425	447,425
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
TOTAL	<u>\$ 4,330,000</u>	<u>\$ 755,251</u>	<u>\$ 5,085,251</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2012**

**ANNUAL REQUIREMENTS
FOR ALL SERIES**

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2013	\$ 425,000	\$ 604,137	\$ 1,029,137
2014	435,000	592,836	1,027,836
2015	445,000	581,137	1,026,137
2016	455,000	567,162	1,022,162
2017	475,000	550,662	1,025,662
2018	490,000	533,337	1,023,337
2019	510,000	515,187	1,025,187
2020	525,000	496,363	1,021,363
2021	545,000	476,778	1,021,778
2022	565,000	455,962	1,020,962
2023	595,000	433,325	1,028,325
2024	170,000	416,556	586,556
2025	185,000	406,349	591,349
2026	200,000	394,906	594,906
2027	220,000	382,044	602,044
2028	240,000	367,956	607,956
2029	265,000	352,491	617,491
2030	290,000	335,494	625,494
2031	320,000	316,012	636,012
2032	350,000	293,819	643,819
2033	380,000	269,637	649,637
2034	415,000	243,303	658,303
2035	455,000	214,484	669,484
2036	500,000	182,850	682,850
2037	545,000	148,235	693,235
2038	595,000	110,472	705,472
2039	655,000	69,070	724,070
2040	<u>715,000</u>	<u>23,684</u>	<u>738,684</u>
TOTAL	<u>\$ 11,965,000</u>	<u>\$ 10,334,248</u>	<u>\$ 22,299,248</u>

See accompanying independent auditor's report.