

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
JUNE 30, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, component unit, and each major fund of East Montgomery County Improvement District (the "District"), as of and for the year ended June 30, 2019, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, component unit, and each major fund of the District as of June 30, 2019, 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 other supplementary information 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 other supplementary information 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

October 15, 2019

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

Management's 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, 2019. Please read it in conjunction with the District's financial statements.

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 Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. 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 governmental-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 and liabilities, 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 fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. The District's Component Unit includes activities related to the East Montgomery County Improvement District Economic Development Zone Nos. 1, 2, 3 and 4.

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 three governmental fund types. The General Fund accounts for resources not accounted for in another fund, sales and hotel tax receipts, economic development expenditures 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 assigned for the acquisition or construction of major capital facilities and related costs.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

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 Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances 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 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 position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$9,484,121 as of June 30, 2019. The following table provides a summary of the District's Statement of Net Position as of June 30, 2019 and June 30, 2018.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

| | <u>Summary of Changes in the Statement of Net Position</u> | | |
|---|--|----------------------|---|
| | <u>2019</u> | <u>2018</u> | <u>Change Positive (Negative)</u> |
| Current and Other Assets | \$ 8,718,864 | \$ 7,269,707 | \$ 1,449,157 |
| Capital Assets (Net of Accumulated Depreciation) | <u>9,691,222</u> | <u>8,187,673</u> | <u>1,503,549</u> |
| Total Assets | <u>\$ 18,410,086</u> | <u>\$ 15,457,380</u> | <u>\$ 2,952,706</u> |
| Bonds Payable | \$ 6,944,521 | \$ 7,049,444 | \$ 104,923 |
| Other Liabilities | <u>1,981,444</u> | <u>634,560</u> | <u>(1,346,884)</u> |
| Total Liabilities | <u>\$ 8,925,965</u> | <u>\$ 7,684,004</u> | <u>\$ (1,241,961)</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ 2,846,100 | \$ 1,235,442 | \$ 1,610,658 |
| Restricted | 2,072,373 | 2,028,068 | 44,305 |
| Unrestricted | <u>4,565,648</u> | <u>4,509,866</u> | <u>55,782</u> |
| Total Net Position | <u>\$ 9,484,121</u> | <u>\$ 7,773,376</u> | <u>\$ 1,710,745</u> |

The following table provides a summary of the District's operations for the years ended June 30, 2019, and June 30, 2018.

| | <u>Summary of Changes in the Statement of Activities</u> | | |
|---------------------------------|--|----------------------|---|
| | <u>2019</u> | <u>2018</u> | <u>Change Positive (Negative)</u> |
| Revenues: | | | |
| Sales Tax Revenues | \$ 10,674,781 | \$ 10,809,838 | \$ (135,057) |
| Other Revenues | <u>436,866</u> | <u>399,633</u> | <u>37,233</u> |
| Total Revenues | <u>\$ 11,111,647</u> | <u>\$ 11,209,471</u> | <u>\$ (97,824)</u> |
| Total Expenses | <u>9,400,902</u> | <u>12,162,801</u> | <u>2,761,899</u> |
| Change in Net Position | \$ 1,710,745 | \$ (953,330) | \$ 2,664,075 |
| Net Position, Beginning of Year | <u>7,773,376</u> | <u>8,726,706</u> | <u>(953,330)</u> |
| Net Position, End of Year | <u>\$ 9,484,121</u> | <u>\$ 7,773,376</u> | <u>\$ 1,710,745</u> |

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2019, were \$6,905,704, an increase of \$99,816 from prior year.

The General Fund fund balance increased by \$55,782, primarily due to sales tax revenues being greater than economic development and administrative costs.

The Debt Service Fund fund balance increased by \$41,848 due to debt service interest and principal costs being less than the amount of funds transferred from the General Fund as well as an increase in investment revenues.

The Capital Projects Fund fund balance increased by \$2,186 due to investment revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$453,382 less than budgeted revenues, primarily due to lower than anticipated sales tax revenues received. Actual expenditures were \$509,164 less than budgeted due to lower than anticipated economic and community development expenditures offset by higher than anticipated capital outlay costs.

CAPITAL ASSETS

Capital assets as of June 30, 2019, total \$9,691,222 (net of accumulated depreciation) and include land, buildings and equipment. When completed, certain utilities are conveyed to other governmental entities for operations and maintenance. Current year additions included the community center parking lot and construction in progress related to the YMER building.

| Capital Assets At Year-End, Net of Accumulated Depreciation | | | |
|---|--------------|--------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | \$ 1,815,341 | \$ 1,815,341 | \$ |
| Construction in Progress | 1,851,366 | 136,890 | 1,714,476 |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Buildings and Equipment | 6,024,515 | 6,235,442 | (210,927) |
| Total Net Capital Assets | \$ 9,691,222 | \$ 8,187,673 | \$ 1,503,549 |

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$7,045,000. The changes in the debt position of the District during the fiscal year ended June 30, 2019, are summarized as follows:

| | |
|----------------------------------|---------------------|
| Bond Debt Payable, July 1, 2018 | \$ 7,155,000 |
| Less: Bond Principal Paid | <u>110,000</u> |
| Bond Debt Payable, June 30, 2019 | <u>\$ 7,045,000</u> |

The District's underlying rating is "AA-." The Series 2009 Bonds carry insured ratings of "AA" by S&P based on insurance issued by Assured Guaranty Municipal Corp. The above ratings are as of June 30, 2019, and remain unchanged from the prior 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 POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2019

| | General Fund | Debt Service Fund |
|--|---------------------|----------------------|
| ASSETS | | |
| Cash | \$ 1,555,964 | \$ 527,702 |
| Investments | 2,199,022 | 1,614,333 |
| Receivables: | | |
| Sales Taxes | 2,153,286 | |
| Other | 250 | 8,622 |
| Due from Governmental Funds | | 90,000 |
| Prepaid Costs | 27,733 | |
| Due from Other Governmental Units | 354,750 | |
| Due From Component Unit | 177,803 | |
| Land | | |
| Construction in Progress | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 6,468,808 | \$ 2,240,657 |
| LIABILITIES | | |
| Accounts Payable | \$ 1,813,160 | \$ |
| Accrued Interest Payable | | |
| Due to Primary Government | | |
| Due to Governmental Funds | 90,000 | |
| Long-Term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| TOTAL LIABILITIES | \$ 1,903,160 | \$ -0- |
| FUND BALANCES | | |
| Nonspendable: Prepaid Costs | \$ 27,733 | \$ |
| Restricted for Authorized Construction | | |
| Restricted for Debt Service | | 2,240,657 |
| Restricted for Hotel/Motel Tax Obligations | 992,125 | |
| Committed for Construction | 1,570,062 | |
| Assigned for Special Events | 137,783 | |
| Unassigned | 1,837,945 | |
| TOTAL FUND BALANCES | \$ 4,565,648 | \$ 2,240,657 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 6,468,808 | \$ 2,240,657 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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

| Capital Projects Fund | Total | Adjustments | Statement of Net Position | Component Unit |
|--------------------------|---------------------|-----------------------|------------------------------|---------------------|
| \$ 474 | \$ 2,084,140 | \$ | \$ 2,084,140 | \$ 2,207,454 |
| 98,925 | 3,912,280 | | 3,912,280 | |
| | 2,153,286 | | 2,153,286 | 1,054 |
| | 8,872 | | 8,872 | |
| | 90,000 | (90,000) | | |
| | 27,733 | | 27,733 | |
| | 354,750 | | 354,750 | |
| | 177,803 | | 177,803 | |
| | | 1,815,341 | 1,815,341 | |
| | | 1,851,366 | 1,851,366 | |
| | | 6,024,515 | 6,024,515 | |
| <u>\$ 99,399</u> | <u>\$ 8,808,864</u> | <u>\$ 9,601,222</u> | <u>\$ 18,410,086</u> | <u>\$ 2,208,508</u> |
| \$ | \$ 1,813,160 | \$ | \$ 1,813,160 | \$ 550 |
| | | 168,284 | 168,284 | |
| | 90,000 | (90,000) | | 177,803 |
| | | 120,000 | 120,000 | |
| | | 6,824,521 | 6,824,521 | |
| <u>\$ -0-</u> | <u>\$ 1,903,160</u> | <u>\$ 7,022,805</u> | <u>\$ 8,925,965</u> | <u>\$ 178,353</u> |
| \$ | \$ 27,733 | \$ (27,733) | \$ | \$ |
| 99,399 | 99,399 | (99,399) | | |
| | 2,240,657 | (2,240,657) | | |
| | 992,125 | (992,125) | | |
| | 1,570,062 | (1,570,062) | | |
| | 137,783 | (137,783) | | |
| | 1,837,945 | (1,837,945) | | 2,030,155 |
| <u>\$ 99,399</u> | <u>\$ 6,905,704</u> | <u>\$ (6,905,704)</u> | <u>\$ - 0 -</u> | <u>\$ 2,030,155</u> |
| <u>\$ 99,399</u> | <u>\$ 8,808,864</u> | | | <u>\$ 2,208,508</u> |
| | | \$ 2,846,100 | \$ 2,846,100 | \$ |
| | | 2,072,373 | 2,072,373 | |
| | | 4,565,648 | 4,565,648 | 2,030,155 |
| | | <u>\$ 9,484,121</u> | <u>\$ 9,484,121</u> | <u>\$ 2,030,155</u> |

The accompanying notes to the 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 POSITION
JUNE 30, 2019**

| | |
|--|--------------|
| Total Fund Balances - Governmental Funds | \$ 6,905,704 |
|--|--------------|

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. | 9,691,222 |
|--|-----------|

Certain 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:

| | | |
|--------------------------|--------------------|--------------------|
| Accrued Interest Payable | \$ (168,284) | |
| Bonds Payable | <u>(6,944,521)</u> | <u>(7,112,805)</u> |

| | |
|--|---------------------|
| Total Net Position - Governmental Activities | <u>\$ 9,484,121</u> |
|--|---------------------|

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

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**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>General Fund</u> | <u>Debt Service Fund</u> |
|---|----------------------|------------------------------|
| REVENUES | | |
| Sales Taxes | \$ 10,674,781 | \$ |
| Hotel/Motel Taxes | 85,241 | |
| Event Revenues | 73,614 | |
| Rents, Investments and Other Revenues | <u>237,982</u> | <u>37,843</u> |
| TOTAL REVENUES | <u>\$ 11,071,618</u> | <u>\$ 37,843</u> |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Programs: | | |
| Community Development | \$ 3,490,822 | \$ |
| Economic Development | 1,763,720 | |
| Scholarships | 700,000 | |
| Administrative: | | |
| Professional Fees | 176,695 | |
| Salaries and Benefits | 1,021,653 | |
| Other | 787,210 | 589 |
| Building | 718,735 | |
| Depreciation | | |
| Capital Outlay | 1,787,001 | |
| Debt Service: | | |
| Bond Principal | | 110,000 |
| Bond Interest | | <u>455,406</u> |
| TOTAL EXPENDITURES/EXPENSES | <u>\$ 10,445,836</u> | <u>\$ 565,995</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES | <u>\$ 625,782</u> | <u>\$ (528,152)</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In(Out) | <u>\$ (570,000)</u> | <u>\$ 570,000</u> |
| NET CHANGE IN FUND BALANCES | \$ 55,782 | \$ 41,848 |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - JULY 1, 2018 | <u>4,509,866</u> | <u>2,198,809</u> |
| FUND BALANCES/NET POSITION - JUNE 30, 2019 | <u>\$ 4,565,648</u> | <u>\$ 2,240,657</u> |

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

| <u>Capital Projects Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> | <u>Component Unit</u> |
|----------------------------------|----------------------|-----------------------|------------------------------------|---------------------------|
| \$ | \$ 10,674,781 | \$ | \$ 10,674,781 | \$ 1,641,478 |
| | 85,241 | | 85,241 | |
| | 73,614 | | 73,614 | |
| <u>2,186</u> | <u>278,011</u> | | <u>278,011</u> | <u>67</u> |
| \$ <u>2,186</u> | \$ <u>11,111,647</u> | \$ <u>- 0 -</u> | \$ <u>11,111,647</u> | \$ <u>1,641,545</u> |
| | | | | |
| \$ | \$ 3,490,822 | \$ | \$ 3,490,822 | \$ |
| | 1,763,720 | | 1,763,720 | |
| | 700,000 | | 700,000 | |
| | 176,695 | | 176,695 | 16,833 |
| | 1,021,653 | | 1,021,653 | |
| | 787,799 | | 787,799 | 6,441 |
| | 718,735 | | 718,735 | |
| | | 283,452 | 283,452 | |
| | 1,787,001 | (1,787,001) | | |
| | 110,000 | (110,000) | | |
| | 455,406 | 2,620 | 458,026 | |
| \$ <u>-0-</u> | \$ <u>11,011,831</u> | \$ <u>(1,610,929)</u> | \$ <u>9,400,902</u> | \$ <u>23,274</u> |
| | | | | |
| \$ <u>2,186</u> | \$ <u>99,816</u> | \$ <u>1,610,929</u> | \$ <u>1,710,745</u> | \$ <u>1,618,271</u> |
| | | | | |
| \$ <u>- 0 -</u> | \$ <u>- 0 -</u> | \$ <u>- 0 -</u> | \$ <u>- 0 -</u> | \$ <u>- 0 -</u> |
| | | | | |
| \$ <u>2,186</u> | \$ <u>99,816</u> | \$ <u>(99,816)</u> | \$ | \$ |
| | | 1,710,745 | 1,710,745 | \$ 1,618,271 |
| | | | | |
| <u>97,213</u> | <u>6,805,888</u> | <u>967,488</u> | <u>7,773,376</u> | <u>411,884</u> |
| | | | | |
| \$ <u>99,399</u> | \$ <u>6,905,704</u> | \$ <u>2,578,417</u> | \$ <u>9,484,121</u> | \$ <u>2,030,155</u> |

The accompanying notes to the 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, 2019**

| | | |
|--|----|--------|
| Net Change in Fund Balances - Governmental Funds | \$ | 99,816 |
|--|----|--------|

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 Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. | | (283,452) |
|--|--|-----------|

| | | |
|--|--|-----------|
| In the Statement of Net Position, capital assets are increased by new purchases and reduced for assets sold. Also, the District reflects an expense for assets constructed and conveyed to other entities for ownership and maintenance. | | 1,787,001 |
|--|--|-----------|

| | | |
|---|--|---------|
| Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. | | 110,000 |
|---|--|---------|

| | | |
|---|--|----------------|
| Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. | | <u>(2,620)</u> |
|---|--|----------------|

| | | |
|--|----|------------------|
| Change in Net Position - Governmental Activities | \$ | <u>1,710,745</u> |
|--|----|------------------|

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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 elected 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 elected 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. East Montgomery County Improvement District Economic Development Zone Nos. 1, 2, 3 and 4 meet the component unit criteria for inclusion in the District's financial statements.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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 (“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 Asset; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position 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 position 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 position 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.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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.

The District's Component Unit includes activities related to the East Montgomery County Improvement District Economic Development Zone Nos. 1, 2, 3 and 4.

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 three governmental funds and considers these 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, economic development expenditures, and general operating 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.

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 THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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 office equipment and fixtures and vehicles, 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. 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:

| | <u>Years</u> |
|---------------------------|--------------|
| Building and Improvements | 40 |
| Furniture and Equipment | 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.

Pensions

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Fund balances in governmental funds 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.

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 committed \$1,570,062 of its fund balance for the construction of the YMER building expansion project.

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 assigned \$137,783 for special events.

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.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. LONG-TERM DEBT

The District's bonds payable at June 30, 2019, consists of the following:

| | Series 2009 Sales Tax Revenue Bonds |
|---|---|
| Amount Outstanding - June 30, 2019 | \$ 7,045,000 |
| Interest Rates | 5.50% - 6.625% |
| Maturity Dates – Serially Beginning/Ending | August 15, 2019/2039 |
| Interest Payment Dates | August 15/ February 15 |
| Callable Dates | 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.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2019:

| | July 1, 2018 | Additions | Retirements | June 30, 2019 |
|-----------------------|---------------------|-----------------------------|----------------------------|---------------------|
| Bonds Payable | \$ 7,155,000 | \$ | \$ 110,000 | \$ 7,045,000 |
| Unamortized Discounts | (105,556) | <u> </u> | (5,077) | (100,479) |
| Bonds Payable, Net | <u>\$ 7,049,444</u> | <u>\$ -0-</u> | <u>\$ 104,923</u> | <u>\$ 6,944,521</u> |
| | | | Amount Due Within One Year | \$ 120,000 |
| | | | Amount Due After One Year | <u>6,824,521</u> |
| | | | Bonds Payable, Net | <u>\$ 6,944,521</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 Note 6. As of June 30, 2019, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|---------------------|---------------------|----------------------|
| 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 |
| 2025-2029 | 1,110,000 | 1,903,746 | 3,013,746 |
| 2030-2034 | 1,755,000 | 1,458,265 | 3,213,265 |
| 2035-2039 | 2,750,000 | 725,111 | 3,475,111 |
| 2040 | 715,000 | 23,684 | 738,684 |
| | <u>\$ 7,045,000</u> | <u>\$ 6,277,755</u> | <u>\$ 13,322,755</u> |

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond order states that the District is required to provide continuing disclosure of certain general financial information and operating data to certain information repositories. 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.

The District maintains in its Debt Service Fund a "Required Reserve" equal to the maximum annual principal and interest requirements on its bonds during the fiscal year. The District transferred \$570,000 from the General Fund to the Debt Service Fund to provide for current and future debt service payments on the outstanding bonds. Of the total transfers, \$90,000 is recorded as an interfund liability at year end.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

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 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 \$2,639,140 and the bank balance was \$2,705,623. The District was not exposed to custodial credit risk at year-end. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2019, as listed below:

| | Cash | Certificates of Deposit | Total |
|-----------------------|--------------|----------------------------|--------------|
| GENERAL FUND | \$ 1,555,964 | \$ | \$ 1,555,964 |
| DEBT SERVICE FUND | 527,702 | 555,000 | 1,082,702 |
| CAPITAL PROJECTS FUND | 474 | | 474 |
| TOTAL DEPOSITS | \$ 2,084,140 | \$ 555,000 | \$ 2,639,140 |

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 THE FINANCIAL STATEMENTS
JUNE 30, 2019

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. 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.

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. Certificates of deposit are recorded at acquisition cost.

As of June 30, 2019, the District had the following investments and maturities:

| Fund and Investment Type | Fair Value | Maturities of Less Than 1 Year |
|------------------------------|--------------|--------------------------------------|
| <u>GENERAL FUND</u> | | |
| TexPool | \$ 2,199,022 | \$ 2,199,022 |
| <u>DEBT SERVICE FUND</u> | | |
| TexPool | 1,059,333 | 1,059,333 |
| Certificates of Deposit | 555,000 | 555,000 |
| <u>CAPITAL PROJECTS FUND</u> | | |
| TexPool | 98,925 | 98,925 |
| TOTAL INVESTMENTS | \$ 3,912,280 | \$ 3,912,280 |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2019, the District’s investment in TexPool was rated “AAAm” by Standard and Poor’s. The District also manages credit risk by investing in certificates of deposit with balances below FDIC insurance coverage.

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. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

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 Component Unit are restricted for the activities related to the East Montgomery County Improvement District Economic Development Zone Nos. 1, 2, 3 and 4.

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 are pledged for the payment of principal and interest on the District's outstanding bonds.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 is as follows:

| | July 1, 2018 | Increases | Decreases | June 30, 2019 |
|--|----------------------------|----------------------------|-------------------------|----------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 1,815,341 | \$ | \$ | \$ 1,815,341 |
| Construction in Progress | <u>136,890</u> | <u>1,787,001</u> | <u>72,525</u> | <u>1,851,366</u> |
| Total Capital Assets Not Being Depreciated | <u>\$ 1,952,231</u> | <u>\$ 1,787,001</u> | <u>\$ 72,525</u> | <u>\$ 3,666,707</u> |
| Capital Assets Subject to Depreciation | | | | |
| Buildings and Equipment | \$ 9,856,736 | \$ 72,525 | \$ - 0 - | \$ 9,929,261 |
| Accumulated Depreciation | | | | |
| Buildings and Equipment | \$ 3,621,294 | \$ 283,452 | \$ - 0 - | \$ 3,904,746 |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ 6,235,442</u> | <u>\$ (210,927)</u> | <u>\$ - 0 -</u> | <u>\$ 6,024,515</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u><u>\$ 8,187,673</u></u> | <u><u>\$ 1,576,074</u></u> | <u><u>\$ 72,525</u></u> | <u><u>\$ 9,691,222</u></u> |

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. 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 there have been no settlements in the past three years.

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. 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 to the plan which are tax deferred.

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 Scholarship Program and administrative costs of EMCSF. Contribution expense was recognized under the current agreement for the year ended June 30, 2019, for \$700,000.

NOTE 11. COMMUNITY AND ECONOMIC DEVELOPMENT

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.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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, currently estimated to be \$319,750, are to be reimbursed with the proceeds of bonds to be issued by District No. 3.

Joint Agreement with Montgomery County Emergency Services District No. 7

The District has an agreement with Montgomery County Emergency Services District No. 7 (“ESD No. 7”) whereby the District makes payments to ESD No. 7 based on sales tax collections to be used to provide expanded emergency services within its boundaries. The agreement also provides for the District to make grants to ESD No. 7 of \$2,100,000, of which \$300,000 was paid on June 27, 2016, \$300,000 was paid on or before December 31, 2016, and the remaining \$1,500,000 is payable based on the following criteria: if the ad valorem tax revenue that will be received in each of the years 2017, 2018, 2019, 2020 and 2021 (utilizing the January 1 certified assessed value for each such year and assuming the annual levy by ESD No. 7 of a \$0.10/\$100 of assessed valuation) by ESD No. 7 from the Grand Texas Development does not exceed \$300,000, the District will make an additional grant to ESD No. 7, payable on or before December 31 of such year(s), to make up the difference between \$300,000 minus the amount of such ad valorem tax funds received by ESD No. 7 in each such year. In the current fiscal year, the District made payments of \$786,977 to ESD No. 7.

Joint Agreement with Montgomery County Emergency Services District No. 6

The District has an agreement with Montgomery County Emergency Services District No. 6 (“ESD No. 6”) whereby the District makes payments to ESD No. 6 based on sales tax collections to be used to provide expanded emergency services within its boundaries. During the current fiscal year, the District made payments of \$1,158,317 to ESD No. 6.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

**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, 2019**

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|---|------------------------------|----------------------|------------------------------------|
| REVENUES | | | |
| Sales Tax Revenues | \$ 11,200,000 | \$ 10,674,781 | \$ (525,219) |
| Hotel/Motel Taxes | 175,000 | 85,241 | (89,759) |
| Events, Rents, Investments and Other Revenues | 150,000 | 311,596 | 161,596 |
| TOTAL REVENUES | \$ 11,525,000 | \$ 11,071,618 | \$ (453,382) |
| EXPENDITURES | | | |
| Services Operations: | | | |
| Programs: | | | |
| Community Development: | | | |
| ESD No. 6 Donation | \$ 1,120,000 | \$ 1,158,317 | \$ (38,317) |
| ESD No. 7 Donation | 1,050,000 | 786,976 | 263,024 |
| Administrative | | 65,929 | (65,929) |
| Legal Fees | 45,000 | 46,471 | (1,471) |
| Special Events | 1,770,000 | 955,130 | 814,870 |
| Grants | 450,000 | 477,999 | (27,999) |
| Total Community Development Expenditures | \$ 4,435,000 | \$ 3,490,822 | \$ 944,178 |
| Economic Development | \$ 2,295,000 | \$ 1,763,720 | \$ 531,280 |
| Scholarships | \$ 705,000 | \$ 700,000 | \$ 5,000 |

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, 2019**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|--------------------------------------|----------------------|---|
| EXPENDITURES (Continued) | | | |
| Administrative: | | | |
| Salaries | \$ 1,087,130 | \$ 1,025,506 | \$ 61,624 |
| Mileage | 8,000 | 4,836 | 3,164 |
| Dues/Professional Memberships | 38,000 | 58,983 | (20,983) |
| Subscriptions | 10,000 | 4,547 | 5,453 |
| Office Equipment Lease | 11,000 | 38,024 | (27,024) |
| Computers/Software | 50,000 | 38,271 | 11,729 |
| Travel & Training | 215,000 | 214,502 | 498 |
| Professional Fees | 173,000 | 176,695 | (3,695) |
| Advertising | 180,000 | 141,624 | 38,376 |
| Accounting | 55,000 | 47,883 | 7,117 |
| Supplies | 22,000 | 18,327 | 3,673 |
| Printing | 50,000 | 74,266 | (24,266) |
| Delivery Fees | 7,000 | 5,448 | 1,552 |
| Postage | 40,000 | 34,498 | 5,502 |
| Telephone | 60,000 | 19,282 | 40,718 |
| Miscellaneous | 20,100 | 82,866 | (62,766) |
| Total Administrative Expenditures | <u>\$ 2,026,230</u> | <u>\$ 1,985,558</u> | <u>\$ 40,672</u> |
| Building/Capital Outlay | <u>\$ 1,493,770</u> | <u>\$ 2,505,736</u> | <u>\$ (1,011,966)</u> |
| TOTAL EXPENDITURES | <u>\$ 10,955,000</u> | <u>\$ 10,445,836</u> | <u>\$ 509,164</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ 570,000</u> | <u>\$ 625,782</u> | <u>\$ 55,782</u> |
| OTHER FINANCING SOURCES(USES) | | | |
| Transfer to Debt Service | <u>\$ (570,000)</u> | <u>\$ (570,000)</u> | <u>\$ -0-</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ -0-</u> | <u>\$ 55,782</u> | <u>\$ 55,782</u> |
| FUND BALANCE - JULY 1, 2018 | <u>4,509,866</u> | <u>4,509,866</u> | |
| FUND BALANCE - JUNE 30, 2019 | <u>\$ 4,509,866</u> | <u>\$ 4,565,648</u> | <u>\$ 55,782</u> |

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

OTHER SUPPLEMENTARY INFORMATION

JUNE 30, 2019

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019**

| S E R I E S - 2 0 0 9 | | | |
|--|-------------------------------|---|---------------|
| Due During Fiscal Years Ending June 30 | Principal Due August 15 | Interest Due August 15/ February 15 | Total |
| 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 | 715,000 | 23,684 | 738,684 |
| | \$ 7,045,000 | \$ 6,277,755 | \$ 13,322,755 |

See accompanying independent auditor's report.

