

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**

**MONTGOMERY COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2009**

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
Certified Public Accountants



**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**MONTGOMERY COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2009**



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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, 2009, 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 an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the District as of June 30, 2009, 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

The Management's Discussion and Analysis on pages 3 through 8 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on pages 34 through 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information on pages 38 through 40 has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants

December 10, 2009



**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2009. Please read it in conjunction with the District's financial statements, which begin on page 9.

**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 (2) 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 9 through 12. 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 Statement of Activities on pages 14 through 17 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.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

**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 (4) 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 for making debt service payments on the District's outstanding bond debt. Disclosed in the report as Other Governmental Funds are two (2) funds: the Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and the Special Revenue Fund 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 (2) 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 13 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 18 explain the differences between the two (2) presentations and assist in understanding the differences between these two (2) 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 19 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.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

**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 \$3,278,968 as of June 30, 2009.

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

	Summary of Changes in the Statement of Net Assets		
	2009	2008	Change Positive (Negative)
Current and Other Assets	\$ 8,357,915	\$ 5,123,550	\$ 3,234,365
Capital Assets (Net of Accumulated Depreciation)	<u>8,944,421</u>	<u>9,204,933</u>	<u>(260,512)</u>
Total Assets	<u>\$ 17,302,336</u>	<u>\$ 14,328,483</u>	<u>\$ 2,973,853</u>
Due to Developer	\$ 880,588	\$	\$ (880,588)
Long-Term Liabilities	12,535,000	5,220,000	(7,315,000)
Other Liabilities	<u>607,780</u>	<u>729,637</u>	<u>121,857</u>
Total Liabilities	<u>\$ 14,023,368</u>	<u>\$ 5,949,637</u>	<u>\$ (8,073,731)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ (3,169,498)	\$ 3,679,933	\$ (6,849,431)
Restricted	2,490,177	1,111,458	1,378,719
Unrestricted	<u>3,958,289</u>	<u>3,587,455</u>	<u>370,834</u>
Total Net Assets	<u>\$ 3,278,968</u>	<u>\$ 8,378,846</u>	<u>\$ (5,099,878)</u>

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

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

The following table provides a summary of the District's operations for the years ended June 30, 2009, and June 30, 2008. The District's net assets decreased by \$5,099,878 accounting for a 60.86% decrease in net assets.

	Summary of Changes in the Statement of Activities		
	2009	2008	Change Positive (Negative)
Revenues:			
Sales Tax Revenue	\$ 3,270,622	\$ 3,313,157	\$ (42,535)
Conveyance of Facilities	1,270,081	1,753,702	(483,621)
Other Revenues	230,527	949,156	(718,629)
Total Revenues	\$ 4,771,230	\$ 6,016,015	\$ (1,244,785)
Expenses	9,871,108	4,110,638	(5,760,470)
Change in Net Assets	\$ (5,099,878)	\$ 1,905,377	\$ (7,005,255)
Net Assets, Beginning of Year	8,378,846	6,473,469	1,905,377
Net Assets, End of Year	\$ 3,278,968	\$ 8,378,846	\$ (5,099,878)

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

The District's combined fund balances as of June 30, 2009, were \$6,563,559, an increase of \$2,056,064 from prior year.

The General Fund fund balance increased by \$608,234, primarily due to a reimbursement from East Montgomery County Municipal Utility District No. 3 in the amount of \$1,270,081.

The Debt Service Fund fund balance increased by \$1,205,270 due to 2009 bond proceeds received.

The Other Governmental Funds increased by \$242,560 due to 2009 bond proceeds.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$146,835 less than budgeted revenues, primarily due to reduced sales tax revenues after the hurricane. Actual expenditures were \$74,480 more than budgeted, primarily due to expenditures for Earthquest.

**CAPITAL ASSETS**

The District's investment in capital assets as of June 30, 2009, amounts to \$8,944,421 (net of accumulated depreciation). This investment in capital assets includes land, industrial park utilities, buildings, office equipment and fixtures.

Capital Assets At Year-End, Net of Accumulated Depreciation

Capital Assets Not Subject to Depreciation:	2009	2008	Increase (Decrease)
Land and Land Improvements	\$ 1,905,854	\$ 1,994,916	\$ (89,062)
Construction in Progress	1,504,900	1,492,606	12,294
<b>Capital Assets Net of Accumulated Depreciation:</b>			
Buildings and Improvements	5,454,108	5,618,948	(164,840)
Equipment	18,659	30,870	(12,211)
Furniture	11,987	18,680	(6,693)
Organizational Costs	<u>48,913</u>	<u>48,913</u>	<u>-0-</u>
<b>Total Net Capital Assets</b>	<u>\$ 8,944,421</u>	<u>\$ 9,204,933</u>	<u>\$ (260,512)</u>

Additional information on the District's capital assets can be found in Note 6 on page 29 of this report.

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total bond debt payable of \$12,855,000.

The changes in the debt position of the District during the fiscal year ended June 30, 2009, are summarized as follows:

Bond Debt Payable, July 1, 2008	\$ 5,525,000
Add: Series 2009 Bonds Issued	7,635,000
Less: Bond Principal Paid – Series 2000	<u>305,000</u>
Bond Debt Payable, June 30, 2009	<u>\$ 12,855,000</u>

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

**LONG-TERM DEBT ACTIVITY (Continued)**

The District's Series 2000 bonds have an underlying rating of "BBB"+ by Standard and Poor's Ratings Services ("S&P"). At June 30, 2008, the bonds were rated "AA" by S&P based on a policy issued by Ambac Assurance Corporation ("AMBAC"). During the current fiscal year, S&P downgraded the rating of AMBAC to "BBB". As a result of the downgrade of AMBAC by S&P, the bonds were also downgraded accordingly. Subsequent to year end, the insured rating dropped to "CC".

The Series 2009 bonds have an underlying rating of "A" by S&P at the time of issuance, and at July 31, 2009, the bonds were rated "AA" by S&P based on a policy issued by Assured Guaranty Corp.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the East Montgomery County Improvement District's finances for anyone with an interest in the government'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.



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**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**JUNE 30, 2009**

	General Fund	Debt Service Funds
<b>ASSETS</b>		
Cash, Note 5	\$ 216,747	\$ 1,328,434
Investments, Note 5	2,825,745	1,042,000
Receivables:		
Sales Taxes	557,109	
Accrued Interest	9,492	9,299
Other	100	
Due from Other Funds, Note 13	7,509	
Prepaid Costs	18,754	
Due from Other Governmental Units, Note 12	489,669	
Unamortized Bond Issuance Costs		
Land, Note 7		
Construction in Progress, Note 7		
Capital Assets (Net of Accumulated Depreciation), Note 7		
<b>TOTAL ASSETS</b>	<b>\$ 4,125,125</b>	<b>\$ 2,379,733</b>

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

Other Governmental Funds	Total	Adjustments	Statement of Net Assets
\$ 58,832	\$ 1,604,013	\$	\$ 1,604,013
1,060,085	4,927,830		4,927,830
	557,109		557,109
568	19,359		19,359
	100		100
	7,509	(7,509)	
	18,754		18,754
	489,669		489,669
		741,081	741,081
		1,905,854	1,905,854
		1,504,900	1,504,900
		5,533,667	5,533,667
<u>\$ 1,119,485</u>	<u>\$ 7,624,343</u>	<u>\$ 9,677,993</u>	<u>\$ 17,302,336</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, 2009**

	General Fund	Debt Service Funds
<b>LIABILITIES</b>		
Accounts Payable	\$ 113,358	\$
Accrued Interest Payable		
Retainage Payable	6,578	
Due to Developers	105,500	
Due to Other Funds		
Unearned Rent	4,000	
Accrued Interest Received at Time of Sale		48,751
Long-Term Liabilities:		
Due Within One Year, Note 3		
Due After One Year, Note 3		
<b>TOTAL LIABILITIES</b>	<b>\$ 229,436</b>	<b>\$ 48,751</b>
<b>FUND BALANCES/NET ASSETS</b>		
<b>FUND BALANCES</b>		
Debt Service:		
From Debt Service Fund Revenues	\$	\$ 1,151,382
For Bond Interest During Construction period, Note 4		1,179,600
Reserved for Capital Projects		274,288
Reserved for Economic Development, Note 14	1,535,000	
Reserved for Prepaid Costs	18,754	
Unreserved – Undesignated	2,341,935	
<b>TOTAL FUND BALANCES</b>	<b>\$ 3,895,689</b>	<b>\$ 2,330,982</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,125,125</b>	<b>\$ 2,379,733</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
<b>TOTAL NET ASSETS</b>		

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

Other Governmental Funds	Total	Adjustments	Statement of Net Assets
\$	\$ 113,358	\$	\$ 113,358
	6,578	163,844	163,844
775,088	880,588		6,578
7,509	7,509	(7,509)	880,588
	4,000		4,000
	48,751	(48,751)	
		320,000	320,000
		<u>12,535,000</u>	<u>12,535,000</u>
<u>\$ 782,597</u>	<u>\$ 1,060,784</u>	<u>\$ 12,962,584</u>	<u>\$ 14,023,368</u>
\$	\$ 1,151,382	\$ (1,151,382)	\$
	1,179,600	(1,179,600)	
274,288	274,288	(274,288)	
62,600	1,597,600	(1,597,600)	
	18,754	(18,754)	
	<u>2,341,935</u>	<u>(2,341,935)</u>	
<u>\$ 336,888</u>	<u>\$ 6,563,559</u>	<u>\$ (6,563,559)</u>	<u>\$ -0-</u>
<u>\$ 1,119,485</u>	<u>\$ 7,624,343</u>		
		\$ (3,169,498)	\$ (3,169,498)
		2,215,889	2,215,889
		274,288	274,288
		<u>3,958,289</u>	<u>3,958,289</u>
		<u>\$ 3,278,968</u>	<u>\$ 3,278,968</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, 2009**

Total Fund Balances - Governmental Funds		\$ 6,563,559
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Unamortized bond issuance costs in governmental activities are not financial resources and therefore are not reported assets in the governmental funds.		741,081
Land used in governmental activities is not a financial resource, and therefore is not reported as an asset in governmental funds.		1,905,854
Construction in progress in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds		1,504,900
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		5,533,667
Accrued interest on long-term liabilities is not payable with current financial resources and therefore is not reported as a liability in the governmental funds.		(115,093)
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	\$ (320,000)	
Bonds Payable After One Year	<u>(12,535,000)</u>	<u>(12,855,000)</u>
Total Net Assets - Governmental Activities		<u>\$ 3,278,968</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, 2009**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Sales Taxes, Note 6	\$ 3,270,622	\$
Investment Revenues	50,755	16,238
Hotel/Motel Taxes	23,850	
Building Rents, Note 8	55,200	
Conveyance of Facilities, Note 12		
Miscellaneous Revenues	68,938	
<b>TOTAL REVENUES</b>	\$ 3,469,365	\$ 16,238
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Programs:		
Community Development, Note 11	\$ 310,432	\$
Economic Development	1,206,040	
Scholarships, Note 10	490,000	
Project Rex/Earthquest	317,156	
Administrative:		
Professional Fees	186,758	
Contracted Services	35,799	
Salaries	288,706	
Payroll Taxes	17,139	
Benefits and Retirement	63,196	
Mileage	25,052	
Payroll Costs	4,961	
Workers Compensation Insurance	252	
Advertising	17,914	
Dues	11,375	
Office Equipment Lease	6,927	
Postage	2,216	
Computers and Software	8,234	
Insurance	3,541	
Office Supplies	17,323	
Subscriptions	5,285	
Travel	103,658	
Telephone	29,702	
Other	11,544	232

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



Other Governmental Funds	Total	Adjustments	Statement of Activities
\$ 1,167	\$ 3,270,622	\$	\$ 3,270,622
	68,160		68,160
	23,850		23,850
	55,200		55,200
	83,317	1,270,081	1,270,081
<u>14,379</u>	<u>83,317</u>	<u>1,270,081</u>	<u>83,317</u>
<u>\$ 15,546</u>	<u>\$ 3,501,149</u>	<u>\$ 1,270,081</u>	<u>\$ 4,771,230</u>
\$	\$ 310,432	\$	\$ 310,432
	1,206,040	300,000	1,506,040
	490,000		490,000
	317,156		317,156
	186,758		186,758
	35,799		35,799
	288,706		288,706
	17,139		17,139
	63,196		63,196
	25,052		25,052
	4,961		4,961
	252		252
	17,914		17,914
	11,375		11,375
	6,927		6,927
	2,216		2,216
	8,234		8,234
	3,541		3,541
	17,323		17,323
	5,285		5,285
	103,658		103,658
	29,702		29,702
10,177	21,953		21,953

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, 2009**

	General Fund	Debt Service Funds
<b>EXPENDITURES/EXPENSES (Continued)</b>		
Building:		
Building Costs	\$ 13,418	\$
Contract Labor	66,938	
Chemicals	593	
Waste Removal	2,167	
Insurance	18,344	
Legal-Building	1,766	
Grounds Maintenance	59,348	
Repairs and Maintenance Building	77,634	
Security	5,756	
Utilities	110,042	
Other	178	
Depreciation, Note 7		
Capital Outlay	12,473	
Conveyance of Land		
Debt Service:		
Bond Principal		305,000
Bond Interest		284,088
Bond Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 3,531,867</b>	<b>\$ 589,320</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<b>\$ (62,502)</b>	<b>\$ (573,082)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In/(Out), Note 13	\$ (599,345)	\$ 598,752
Bond Discount		
Proceeds from Series 2009 Bond Sale, Note 3		1,179,600
Proceeds from East Montgomery County Municipal Utility District No. 3, Note 12	1,270,081	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 670,736</b>	<b>\$ 1,778,352</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 608,234</b>	<b>\$ 1,205,270</b>
<b>CHANGE IN NET ASSETS</b>		
<b>FUND BALANCES/NET ASSETS – JULY 1, 2008</b>	<b>3,287,455</b>	<b>1,125,712</b>
<b>FUND BALANCES/NET ASSETS – JUNE 30, 2009</b>	<b>\$ 3,895,689</b>	<b>\$ 2,330,982</b>

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

Other Governmental Funds	Total	Adjustments	Statement of Activities
\$	\$ 13,418	\$	\$ 13,418
	66,938		66,938
	593		593
	2,167		2,167
	18,344		18,344
	1,766		1,766
	59,348		59,348
	77,634		77,634
	5,756		5,756
	110,042		110,042
	178		178
		183,744	183,744
5,472,610	5,485,083	(12,294)	5,472,789
		89,062	89,062
	305,000	(305,000)	
	284,088	11,622	295,710
<u>593,867</u>	<u>593,867</u>	<u>(593,867)</u>	<u>          </u>
<u>\$ 6,076,654</u>	<u>\$ 10,197,841</u>	<u>\$ (326,733)</u>	<u>\$ 9,871,108</u>
<u>\$ (6,061,108)</u>	<u>\$ (6,696,692)</u>	<u>\$ 1,596,814</u>	<u>\$ (5,099,878)</u>
\$ 593	\$	\$	\$
(152,325)	(152,325)	152,325	
6,455,400	7,635,000	(7,635,000)	
	1,270,081	(1,270,081)	
<u>\$ 6,303,668</u>	<u>\$ 8,752,756</u>	<u>\$ (8,752,756)</u>	<u>\$ -0-</u>
\$ 242,560	\$ 2,056,064	\$ (2,056,064)	\$
		(5,099,878)	(5,099,878)
<u>94,328</u>	<u>4,507,495</u>	<u>3,871,351</u>	<u>8,378,846</u>
<u>\$ 336,888</u>	<u>\$ 6,563,559</u>	<u>\$ (3,284,591)</u>	<u>\$ 3,278,968</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, 2009**

Net Change in Fund Balances - Governmental Funds	\$ 2,056,064
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.	(183,744)
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. The conveyance of capital assets to another entity non capitalized development costs are expensed in the Statement of Activities.	(76,768)
In 2007, the District agreed to loan to Montgomery County Emergency Service District No. 7 \$300,000 each December for five (5) years. During the current fiscal year, the District converted the loan to a grant	(300,000)
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.	305,000
Governmental funds report interest payments on bonds as expenditures in the year paid. However, in the Statement of Activities, interest is accrued on the bonds through the fiscal year end and the amortized portion of the bond issuance costs is added to the bond interest expense.	(11,622)
Governmental funds report bond issuance costs paid out of the Capital Projects Fund as an expenditure. Bond discounts are reported on as an other financing uses. In the Statement of Net Assets, the bond issuance costs and bond discount are amortized over the life of the bonds and the amortized portion is recorded as an interest expense in the Statement of Activities.	746,192
Governmental funds report bond proceeds as other financing sources. In the government-wide statements, the issuance of long-term debt increases liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	<u>(7,635,000)</u>
Change in Net Assets - Governmental Activities	<u>\$ (5,099,878)</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, 2009**

**NOTE 1. CREATION OF DISTRICT**

East Montgomery County Improvement District, (the "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 75<sup>th</sup> 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 77<sup>th</sup> 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 80<sup>th</sup> Texas State legislative session. Senate Bill 2453 amended House Bill No. 4015 during the 81<sup>st</sup> 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 (8) member Board of Directors and employs permanent staff, which includes a President/CEO. The Commissioners Court of Montgomery County appointed the eight (8) 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. In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The Governmental Accounting Standards Board 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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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

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.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34-Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments.

GASB Statement No. 34 established 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 (3) 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.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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

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.

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 (4) governmental funds and considers the General Fund and the Debt Fund to be major funds. All other funds are combined for financial statement presentation.

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

Debt Service Fund – To account for financial resources accumulated for servicing bond debt.

Capital Projects Fund – To account for financial resources to be used for the acquisition or construction of major capital facilities.

Special Revenue Fund – To account for financial resources to be used for special activities performed by the District.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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

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 sixty (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.

Amounts transferred from one (1) fund to another fund are reported as another financing source or use. Loans by one (1) fund to another fund and amounts paid by one (1) 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 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 (2) 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



**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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

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 six (6) 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 appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances are included on the Balance Sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

Unreserved:

Designated - To indicate fund equity for which the District has made tentative plans.

Undesignated - To indicate fund equity which is available for use in future periods.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**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. BONDS PAYABLE**

	<u>Series 2000</u>	<u>Series 2009</u>
Amount Outstanding - June 30, 2009	\$ 5,220,000	\$ 7,635,000
Interest Rates	4.90% - 5.50%	5.50% - 6.625%
Maturity Dates – Serially Beginning/Ending	August 15, 2009/2020	August 15, 2012/2039
Interest Payment Dates	August 15/ February 15	August 15/ February 15
Callable Dates	August 15, 2010*	August 15, 2022**

\* Bonds maturing on or after August 15, 2011, are callable on August 15, 2010 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, 2018, and August 15, 2020, are subject to mandatory sinking fund redemption commencing on August 15, 2017, and August 15, 2019, respectively. The Term Bonds of a given maturity required to be redeemed shall be selected by lot or other customary random method.

\*\* 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.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 3. BONDS PAYABLE (Continued)**

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2009:

Bond Debt Payable – July 1, 2008	\$ 5,525,000
Add: Bonds Issued – Series 2009	7,635,000
Less: Bond Principal Retirement: Series 2000	<u>305,000</u>
Total Bond Debt Payable – June 30, 2009	<u>\$ 12,855,000</u>
Bond Debt Payable –	
Due Within One Year	\$ 320,000
Due After One Year	<u>12,535,000</u>
Total Bond Debt Payable – June 30, 2009	<u>\$ 12,855,000</u>
Original Bonds Issued	<u>\$ 14,860,000</u>

As of June 30, 2009, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2010	\$ 320,000	\$ 674,877	\$ 994,877
2011	340,000	739,873	1,079,873
2012	355,000	722,494	1,077,494
2013	440,000	701,924	1,141,924
2014	465,000	677,849	1,142,849
2015-2019	2,770,000	2,967,398	5,737,398
2020-2024	1,835,000	2,229,374	4,064,374
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	<u>715,000</u>	<u>23,684</u>	<u>738,684</u>
	<u>\$ 12,855,000</u>	<u>\$ 12,824,595</u>	<u>\$ 25,679,595</u>

On April 15, 2009, the District issued Series 2009 Sales Tax Revenue Bonds in the amount of \$7,635,000. The proceeds from the bonds were used to fund costs for Earthquest and bond issuance costs. The bonds are special obligations of the District, payable from and secured by a lien on and pledge of the proceeds of a sales and use tax.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**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.
- 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 (6) months after the end of each fiscal year shall continue to be provided through the life of the bonds.
- C. In accordance with the Series 2008 and 2009 Bond Orders, 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 – October 1, 2008	\$ -0-
Add: Capitalized Interest (14 months)	568,757
Add: Bond Interest Reserve, Series 2009	<u>610,843</u>
Bond Interest Reserve – September 30, 2009	<u>\$ 1,179,600</u>

**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 \$5,110,062 and the bank balance was \$5,123,342. Of the bank balance, \$4,006,049 was covered by federal depository insurance and the balance

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

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, 2009, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 216,747	\$ 2,446,049	\$ 2,662,796
SPECIAL REVENUE FUND – (Restricted for Special Events)	22,031	40,000	62,031
DEBT SERVICE FUND – (Restricted for Payment of Debt Service)	1,328,434	1,020,000	2,348,434
CAPITAL PROJECTS FUND – (Restricted for Purchase of Capital Assets)	<u>36,801</u>	<u>                    </u>	<u>36,801</u>
TOTAL CASH	<u>\$ 1,604,013</u>	<u>\$ 3,506,049</u>	<u>\$ 5,110,062</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.

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (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. First State Comptroller of Public Accounts of the State of Texas has oversight of the pool. The Federated Investors manage 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.

Investments (Continued)

As of June 30, 2009, 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
<u>GENERAL FUND -</u>					
TexPool	\$ 299,616	\$ 299,616	\$	\$	\$
Certificates of Deposit	2,446,049	2,446,049			
Money Market Mutual Fund	<u>80,080</u>	<u>80,080</u>			
Subtotal	<u>\$ 2,825,745</u>	<u>\$ 2,825,745</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>DEBT SERVICE FUND -</u>					
TexPool	\$ 11,027	\$ 11,027	\$	\$	\$
Certificates of Deposit	1,020,000	1,020,000			
Money Market Mutual Fund	<u>10,973</u>	<u>10,973</u>			
Subtotal	<u>\$ 1,042,000</u>	<u>\$ 1,042,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>OTHER</u>					
<u>GOVERNMENTAL</u>					
<u>FUNDS -</u>					
TexPool	\$ 1,020,085	\$ 1,020,085	\$	\$	\$
Certificates of Deposit	40,000	40,000			
Subtotal	\$ 1,060,085	\$ 1,060,085	\$ -0-	\$ -0-	\$ -0-
Total	\$ 4,927,830	\$ 4,927,830	\$ -0-	\$ -0-	\$ -0-

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2009, the District's investments in TexPool were rated "AAAm" by Standard and Poor's. Wells Fargo Advantage Government Money Market Fund was also rated "AAAm" by Standard and Poor's.

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and the money market fund to have a maturity of less than one (1) year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

**NOTE 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 one-percent sales and use tax within the District, subject to the applicable provisions of the Texas Tax Code. The District relies on this tax for the funding of substantially all of its programs, functions and services. The District collected \$3,270,622 from the levy of the sales and use tax for the fiscal year ended June 30, 2009.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 7. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009:

	<u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 1,994,916		\$ 89,062	\$ 1,905,854
Construction in Progress	<u>1,492,606</u>	<u>12,294</u>		<u>1,504,900</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 3,487,522</u>	<u>\$ 12,294</u>	<u>\$ 89,062</u>	<u>\$ 3,410,754</u>
<b>Capital Assets at Historical Costs Subject to Depreciation</b>				
Buildings and Improvements	\$ 6,593,602			\$ 6,593,602
Equipment	176,317			176,317
Furniture	559,519			559,519
Organizational Costs	<u>48,913</u>			<u>48,913</u>
<b>Total Capital Assets at Historical Costs Subject to Depreciation</b>	<u>\$ 7,378,351</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 7,378,351</u>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	\$ 974,654	\$ 164,840		\$ 1,139,494
Equipment	145,447	12,211		157,658
Furniture	<u>540,839</u>	<u>6,693</u>		<u>547,532</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 1,660,940</u>	<u>\$ 183,744</u>	<u>\$ -0-</u>	<u>\$ 1,844,684</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 5,717,411</u>	<u>\$ (183,744)</u>	<u>\$ -0-</u>	<u>\$ 5,533,667</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 9,204,933</u>	<u>\$ (171,450)</u>	<u>\$ 89,062</u>	<u>\$ 8,944,421</u>



**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 8. LEASE AGREEMENTS**

The District leases office space to several community based organizations, however leasing is not a significant part of the District's activities.

On June 14, 2007, the District executed a lease to rent office space to North Harris Montgomery Community College District Small Business Development Center, subject to certain conditions. The lease is for 12 months, with successive one year term renewals.

Lease agreements were also executed for office space, subject to certain conditions, with North Harris Montgomery Community College District on February 26, 2002, Community Chamber of Commerce on April 1, 2002, and Montgomery County Youth Services on December 1, 2004. The youth services agreement is for 12 months, with successive one year term renewals.

During the current fiscal year, the District received \$55,200 under these contracts

**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 twelve 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 is participating in a 401(K) Plan for eligible employees. The District matches 5% of each employee's contribution into the plan. All contributions are tax deferred.

During the current fiscal year, the District recorded \$11,737 as its contribution to the plan.

**NOTE 10. SCHOLARSHIP PROGRAM**

The District established an endowed scholarship program through a partnership with the North Harris Montgomery Community College District Foundation (the "Foundation"). The scholarship program enables high school graduates from New Caney Independent School District and Splendora Independent School District, as well as residents of the District who graduate from private schools, home-school programs and graduate equivalence degrees ("GED"), to receive tuition and applicable fees toward their education at the College. Under the terms of the agreement, the District agreed to contribute an annual amount of \$150,000, of which \$50,000 was added to the principal of the endowment and \$100,000 was to cover the current year cost of student tuition and fees. The Foundation administers the East Montgomery County Improvement District (EMCID) Educational Scholarship Program. Payments from the District are to be made on an annual basis until 2015, or when the program reaches \$2.25 million,

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 10. SCHOLARSHIP PROGRAM (Continued)**

whichever comes first.

Subsequently, the agreement was replaced by a similar agreement 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 EMCID 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, 2009 for \$490,000.

**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 \$310,432 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. In addition, the District will provide District No. 3 with certain funds necessary to operate until sufficient revenues become available to District No. 3 to allow it to operate on its own. Under the agreement, the costs, including interest, are to be reimbursed with the proceeds of bonds to be issued by District No. 3. The balance payable as of June 30, 2008, was \$454,523.

During the current fiscal year, a \$35,146 additional advance was added for dirt spread, resulting in a balance due at June 30, 2009, of \$489,669.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)**

In addition, the District submitted invoices to District No. 3 for industrial park costs for detention and drainage which were reimbursed in the amount of \$1,270,081.

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 established a reserve for Economic Development in the General Fund, a part of which includes this reserve of \$415,000 for the remaining commitment.

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 (5) years. Each December, through and including December 2011, the loan amount will be paid to ESD No. 7. The loan is interest free. ESD No. 7 agreed to repay the loan on or before November 30, 2017. In the event the estimated tax base within ESD No. 7 is less than anticipated, the District may forgive repayment of all or part of the loan, and such loan may be treated as a grant.

In the current fiscal year, the District made its annual payment of \$300,000 to ESD No. 7. Subsequent amendments have converted the previous amount paid to a grant.

**NOTE 13. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

As of September 30, 2009, the District had the following interfund liabilities:

The Construction Fund owes the General Fund \$7,509 for bond issue costs.

Transfers from the General Fund included \$593 to special events for building rentals, and transfers to debt service for building payments in the amount of \$598,752.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 14. RESERVED FOR ECONOMIC DEVELOPMENT**

The Board of Directors has elected to establish a Reserve Fund for several economic development and community projects totaling \$1,535,000.

**NOTE 15. 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 (3) years.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2009**



**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, 2009**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Sales Tax Revenues	\$ 3,400,000	\$ 3,270,622	\$ (129,378)
Investment Revenues	110,000	50,755	(59,245)
Hotel/Motel Taxes	11,000	23,850	12,850
Building Rents	75,200	55,200	(20,000)
Miscellaneous Revenues	<u>20,000</u>	<u>68,938</u>	<u>48,938</u>
<b>TOTAL REVENUES</b>	<u>\$ 3,616,200</u>	<u>\$ 3,469,365</u>	<u>\$ (146,835)</u>
<b>EXPENDITURES</b>			
Service Operations:			
Programs:			
Community Development:			
ESD No. 6 Emergency Services	\$ 560,979	\$ 560,979	\$
ESD No. 7 Grant	300,000	300,000	
Administrative	500		500
Legal Fees	10,000	3,716	6,284
Special Events	100,000	109,771	(9,771)
Library Legal	2,000		2,000
Library Engineering	2,000		2,000
Community Development Grants	175,000	196,945	(21,945)
Scholarship Program	490,000	490,000	
Scholarship Program-Legal	<u>2,000</u>		<u>2,000</u>
Total Community Development Expenditures	<u>\$ 1,642,479</u>	<u>\$ 1,661,411</u>	<u>\$ (18,932)</u>
Economic Development:			
Marketing	\$ 100,000	\$ 102,190	\$ (2,190)
RLF	100,000	50,000	50,000
Legal	30,000	14,955	15,045
Projects		12,500	(12,500)
Land/Building/Industrial	35,000	88,166	(53,166)
Industrial Park Engineering	30,000	75,349	(45,349)
Industrial Park Accounting	2,500		2,500
Industrial Park Capital Improvements	75,000		75,000
Expense		<u>1,901</u>	<u>(1,901)</u>
Total Economic Development Expenditures	<u>\$ 372,500</u>	<u>\$ 345,061</u>	<u>\$ 27,439</u>
Earthquest:			
Economic Development – Project Rex	\$ 20,000	\$ 235,984	\$ (215,984)
Other Expense – Project Rex	10,000		10,000
Financial Advisor		14,685	(14,685)
Engineering	35,000	14,990	20,010
Legal	<u>35,000</u>	<u>51,497</u>	<u>(16,497)</u>
Total Earthquest	<u>\$ 100,000</u>	<u>\$ 317,156</u>	<u>\$ (217,156)</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, 2009**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>EXPENDITURES (Continued)</b>			
Administrative:			
Salaries	\$ 338,100	\$ 288,706	\$ 49,394
Payroll Taxes	25,860	17,139	8,721
Payroll Expense	2,500	4,961	(2,461)
Retirement	15,000	11,737	3,263
Health Insurance	60,000	51,459	8,541
Workers Comp.	2,000	252	1,748
Mileage	18,000	25,052	(7,052)
Dues/Professional Memberships	12,000	11,375	625
Subscriptions	6,000	5,285	715
Office Equipment Lease	7,700	6,927	773
Computers/Software	18,000	8,234	9,766
Travel & Training	90,000	103,658	(13,658)
Legal Fees	50,000	96,286	(46,286)
Advertising	15,000	17,914	(2,914)
Audit Fees	10,000	9,500	500
Engineering Fees	35,000	80,972	(45,972)
Accounting	22,000	35,799	(13,799)
Supplies	11,000	10,067	933
Printing	147,000	1,822	145,178
Delivery Fees	18,000	5,434	12,566
Postage	96,000	2,216	93,784
Telephone	32,000	29,702	2,298
Bonds-Directors & Officers		3,541	(3,541)
Miscellaneous	12,000	11,545	455
<b>Total Administrative Expenditures</b>	<b>\$ 1,043,160</b>	<b>\$ 839,583</b>	<b>\$ 203,577</b>
Building:			
Legal Fees-Building	\$ 5,000	\$ 1,766	\$ 3,234
Grounds Maintenance	15,000	59,348	(44,348)
Security	8,000	5,756	2,244
Pond Care	1,000		1,000
Utilities	115,000	110,042	4,958
Insurance-Building	20,000	18,344	1,656
Building Expenses	1,000	13,595	(12,595)
Waste Removal	1,900	2,167	(267)
Pest Control	1,000		1,000
Chemicals	500	593	(93)
Repairs & Maintenance-Building	40,000	77,634	(37,634)
Building Supplies	6,000		6,000
Contract Labor	12,000	66,938	(54,938)
Events Acct. Expenditures	13,000		13,000
Capital Items	30,000	12,473	17,527
Building Improvements - Capital	15,000		15,000
<b>Total Building Expenditures</b>	<b>\$ 284,400</b>	<b>\$ 368,656</b>	<b>\$ (84,256)</b>

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, 2009**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>EXPENDITURES (Continued)</b>			
Building Expense:			
Building Payment	\$ 588,600	\$ 598,752	\$ (10,152)
Capital Expense Claim	20,000		20,000
Engineering	5,000		5,000
Total Building Expense	\$ 613,600	\$ 598,752	\$ 14,848
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,056,139</b>	<b>\$ 4,130,619</b>	<b>\$ (74,480)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (439,939)</b>	<b>\$ (661,254)</b>	<b>\$ (221,315)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	\$	\$ (599,345)	\$ (599,345)
Building Transfers to Debt Service		598,752	598,752
Proceeds from East Montgomery County Municipal Utility District No. 3 Reimbursement	500,000	1,270,081	770,081
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 500,000</b>	<b>\$ 1,269,488</b>	<b>\$ 769,488</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 60,061</b>	<b>\$ 608,234</b>	<b>\$ 548,173</b>
<b>FUND BALANCE – JULY 1, 2008</b>	<b>3,287,455</b>	<b>3,287,455</b>	
<b>FUND BALANCE – JUNE 30, 2009</b>	<b>\$ 3,347,516</b>	<b>\$ 3,895,689</b>	<b>\$ 548,173</b>

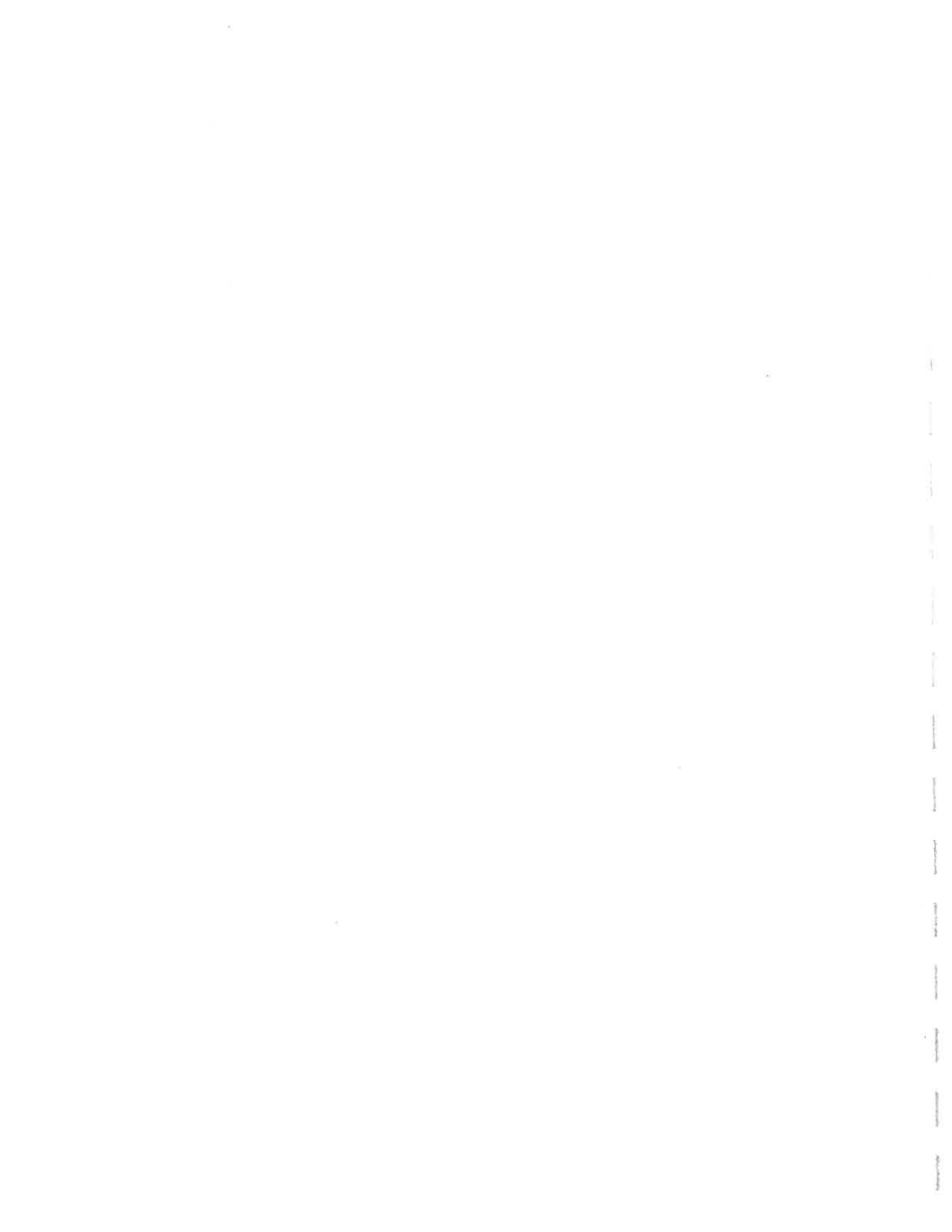
See accompanying independent auditor's report.

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**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT**

**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2009**



**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
JUNE 30, 2009**

Due During Fiscal Years Ending June 30	S E R I E S - 2 0 0 0		
	Principal Due August 15	Interest Due August 15/ February 15	Total
2010	\$ 320,000	\$ 268,622	\$ 588,622
2011	340,000	252,367	592,367
2012	355,000	234,988	589,988
2013	375,000	216,368	591,368
2014	395,000	196,343	591,343
2015	415,000	174,978	589,978
2016	440,000	152,210	592,210
2017	460,000	128,020	588,020
2018	485,000	102,505	587,505
2019	515,000	75,505	590,505
2020	545,000	46,613	591,613
2021	575,000	15,812	590,812
2022			
2023			
2024			
2025			
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2036			
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2038			
2039			
2040			
<b>TOTAL</b>	<u>\$ 5,220,000</u>	<u>\$ 1,864,331</u>	<u>\$ 7,084,331</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
JUNE 30, 2009**

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
2010	\$	\$ 406,255	\$ 406,255
2011		487,506	487,506
2012		487,506	487,506
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	715,000	23,684	738,684
<b>TOTAL</b>	<b>\$ 7,635,000</b>	<b>\$ 10,960,264</b>	<b>\$ 18,595,264</b>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
JUNE 30, 2009**

**ANNUAL REQUIREMENTS  
FOR ALL SERIES**

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total
2010	\$ 320,000	\$ 674,877	\$ 994,877
2011	340,000	739,873	1,079,873
2012	355,000	722,494	1,077,494
2013	440,000	701,924	1,141,924
2014	465,000	677,849	1,142,849
2015	490,000	652,134	1,142,134
2016	520,000	624,716	1,144,716
2017	550,000	595,426	1,145,426
2018	585,000	564,211	1,149,211
2019	625,000	530,911	1,155,911
2020	665,000	495,269	1,160,269
2021	705,000	457,443	1,162,443
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
<b>TOTAL</b>	<b><u>\$ 12,855,000</u></b>	<b><u>\$ 12,824,595</u></b>	<b><u>\$ 25,679,595</u></b>

See accompanying independent auditor's report.

