

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT

JUNE 30, 2010

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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, 2010, 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.

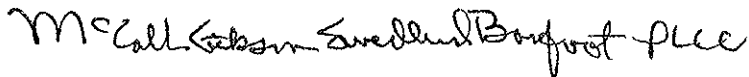
We have conducted our audit in accordance with auditing standards generally accepted as promulgated within the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 respective financial position of the governmental activities and each major fund of the District as of June 30, 2010, 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 37 through 39 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 41 through 43 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
Certified Public Accountants

December 9, 2010

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010. 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, 2010**

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 is restricted for making debt service payments on the District's outstanding bond debt. 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 under other Governmental Funds is used to account for financial resources to be used for special activities performed by the District.

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets on page 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 presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 19 through 35 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, 2010**

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 \$222,755 as of June 30, 2010.

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

Summary of Changes in the Statement of Net Assets			
	2010	2009	Change Positive (Negative)
Current and Other Assets	\$ 5,891,852	\$ 8,357,915	\$ (2,466,063)
Capital Assets (Net of Accumulated Depreciation)	<u>7,212,526</u>	<u>8,944,421</u>	<u>(1,731,895)</u>
Total Assets	<u>\$ 13,104,378</u>	<u>\$ 17,302,336</u>	<u>\$ (4,197,958)</u>
Due to Developer	\$	\$ 880,588	\$ 880,588
Long-Term Liabilities	12,195,000	12,535,000	340,000
Other Liabilities	<u>686,623</u>	<u>607,780</u>	<u>(78,843)</u>
Total Liabilities	<u>\$ 12,881,623</u>	<u>\$ 14,023,368</u>	<u>\$ 1,141,745</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ (4,606,265)	\$ (3,169,498)	\$ (1,436,767)
Restricted	2,208,894	2,490,177	(281,283)
Unrestricted	<u>2,620,126</u>	<u>3,958,289</u>	<u>(1,338,163)</u>
Total Net Assets	<u>\$ 222,755</u>	<u>\$ 3,278,968</u>	<u>\$ (3,056,213)</u>

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended June 30, 2010, and June 30, 2009. The District's net assets decreased by \$3,056,213 accounting for a 93.2% decrease in net assets.

Summary of Changes in the Statement of Activities			
	2010	2009	Change Positive (Negative)
Revenues:			
Sales Tax Revenue	\$ 3,450,907	\$ 3,270,622	\$ 180,285
Conveyance of Facilities	651,370	1,270,081	(618,711)
Other Revenues	233,837	230,527	3,310
Total Revenues	\$ 4,336,114	\$ 4,771,230	\$ (435,116)
Expenses	7,392,327	9,871,108	2,478,781
Change in Net Assets	\$ (3,056,213)	\$ (5,099,878)	\$ 2,043,665
Net Assets, Beginning of Year	3,278,968	8,378,846	(5,099,878)
Net Assets, End of Year	\$ 222,755	\$ 3,278,968	\$ (3,056,213)

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2010, were \$4,926,089, a decrease of \$1,637,470 from prior year.

The General Fund fund balance decreased by \$1,351,380, primarily due to building repairs, building debt funding and economic development and capital outlay costs.

The Debt Service Fund fund balance decreased by \$119,837 due to debt service interest and principal costs being greater than the amount of funds transferred in from the General Fund.

The Capital Projects Fund fund balance decreased by \$179,471, primarily due to an Earthquest reimbursement.

The Other Governmental Funds fund balance increased by \$13,218 due to special events revenue being greater than the expenditures for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$560,818 less than budgeted revenues, primarily due to less than anticipated sales tax revenues received. Actual expenditures were \$1,053,308 more than budgeted, primarily due to expenditures for Community Development Grants and Capital Improvements.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

CAPITAL ASSETS

The District's investment in capital assets as of June 30, 2010, amounts to \$7,212,526 (net of accumulated depreciation). This investment in capital assets includes land, buildings, office equipment and fixtures. Certain utilities constructed by the District are conveyed to East Montgomery County Municipal Utility District No. 3 for operations once construction is completed and the facilities are placed in service. In the current fiscal year, organizational costs of the District were removed from the capital assets of the District.

Capital Assets At Year-End, Net of Accumulated Depreciation

Capital Assets Not Subject to Depreciation:	2010	2009	Increase (Decrease)
Land and Land Improvements	\$ 1,905,854	\$ 1,905,854	\$
Construction in Progress		1,504,900	(1,504,900)
Capital Assets Net of Accumulated Depreciation:			
Buildings and Improvements	5,289,268	5,454,108	(164,840)
Equipment	11,410	18,659	(7,249)
Furniture	5,994	11,987	(5,993)
Organizational Costs	<u> </u>	<u>48,913</u>	<u>(48,913)</u>
Total Net Capital Assets	<u>\$ 7,212,526</u>	<u>\$ 8,944,421</u>	<u>\$ (1,731,895)</u>

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

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District had total bond debt payable of \$12,535,000.

The changes in the debt position of the District during the fiscal year ended June 30, 2010, are summarized as follows:

Bond Debt Payable, July 1, 2009	\$ 12,855,000
Less: Bond Principal Paid – Series 2000	<u>320,000</u>
Bond Debt Payable, June 30, 2010	<u>\$ 12,535,000</u>

The District's Series 2000 Bonds have an underlying rating of "A" by Standard and Poor's Ratings Services ("S&P") at June 30, 2010. The 2000 Series Bonds were refunded subsequent to the fiscal year end.

The Series 2009 Bonds have an underlying rating of "A" by S&P, and at June 30, 2010, the bonds were rated "AAA" by S&P based on a policy issued by Assured Guaranty Corp.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010

	General Fund	Debt Service Fund
ASSETS		
Cash, Note 5	\$ 120,651	\$ 306
Investments, Note 5	1,361,217	2,192,326
Receivables:		
Sales Taxes	808,038	
Accrued Interest	5,203	18,513
Other	1,333	
Prepaid Costs	19,662	
Due from Other Governmental Units, Note 12	436,458	
Due from Others	41,301	
Unamortized Bond Issuance Costs		
Land, Note 7		
Capital Assets (Net of Accumulated Depreciation), Note 7		
TOTAL ASSETS	\$ 2,793,863	\$ 2,211,145

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

Capital Projects Fund	Other Governmental Funds	Total	Adjustments	Statement of Net Assets
\$ 474	\$ 25,641	\$ 147,072	\$	\$ 147,072
94,344	50,000	3,697,887		3,697,887
		808,038		808,038
	176	23,892		23,892
		1,333		1,333
		19,662		19,662
		436,458		436,458
		41,301		41,301
			716,209	716,209
			1,905,854	1,905,854
			5,306,672	5,306,672
<u>\$ 94,818</u>	<u>\$ 75,817</u>	<u>\$ 5,175,643</u>	<u>\$ 7,928,735</u>	<u>\$ 13,104,378</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, 2010

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 207,440	\$
Accrued Interest Payable		
Retainage Payable	38,114	
Deferred Rent	4,000	
Long-Term Liabilities:		
Due Within One Year, Note 3		
Due After One Year, Note 3		
TOTAL LIABILITIES	\$ 249,554	\$ -0-
FUND BALANCES/NET ASSETS		
FUND BALANCES		
Reserved for Debt Service:		
For Bond Interest During Construction period, Note 4	\$	\$ 773,345
From Debt Service Fund Revenues		1,437,800
Reserved for Capital Projects		
Reserved for Economic Development, Note 14	1,535,000	
Reserved for Hotel/Motel Tax Obligations	108,554	
Reserved for Prepaid Costs	19,662	
Unreserved – Undesignated	881,093	
TOTAL FUND BALANCES	\$ 2,544,309	\$ 2,211,145
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,793,863	\$ 2,211,145
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
TOTAL NET ASSETS		

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

Capital Projects Fund	Other Governmental Funds	Total	Adjustments	Statement of Net Assets
\$	\$	\$ 207,440	\$	\$ 207,440
			97,069	97,069
		38,114		38,114
		4,000		4,000
			340,000	340,000
			<u>12,195,000</u>	<u>12,195,000</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 249,554</u>	<u>\$ 12,632,069</u>	<u>\$ 12,881,623</u>
\$	\$	\$ 773,345	\$ (773,345)	\$
		1,437,800	(1,437,800)	
94,818		94,818	(94,818)	
	75,817	1,610,817	(1,610,817)	
		108,554	(108,554)	
		19,662	(19,662)	
		<u>881,093</u>	<u>(881,093)</u>	
<u>\$ 94,818</u>	<u>\$ 75,817</u>	<u>\$ 4,926,089</u>	<u>\$ (4,926,089)</u>	<u>\$ -0-</u>
<u>\$ 94,818</u>	<u>\$ 75,817</u>	<u>\$ 5,175,643</u>		
			\$ (4,606,265)	\$ (4,606,265)
			2,114,076	2,114,076
			94,818	94,818
			<u>2,620,126</u>	<u>2,620,126</u>
			<u>\$ 222,755</u>	<u>\$ 222,755</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, 2010**

Total Fund Balances - Governmental Funds		\$ 4,926,089
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 as assets in the governmental funds.		716,209
Land used in governmental activities is not a financial resource, and therefore is not reported as an asset in governmental funds.		1,905,854
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		5,306,672
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on the long-term debt through fiscal year end.		(97,069)
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	\$ (340,000)	
Bonds Payable After One Year	<u>(12,195,000)</u>	<u>(12,535,000)</u>
Total Net Assets - Governmental Activities		<u>\$ 222,755</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, 2010**

	General Fund	Debt Service Fund
REVENUES		
Sales Taxes, Note 6	\$ 3,450,907	\$
Investment Revenues	25,653	27,457
Hotel/Motel Taxes	71,762	
Building Rents, Note 8	57,626	
Conveyance of Facilities, Note 12		
Miscellaneous Revenues	1,434	
TOTAL REVENUES	\$ 3,607,382	\$ 27,457
EXPENDITURES/EXPENSES		
Service Operations:		
Programs:		
Community Development, Note 11	\$ 463,439	\$
Economic Development	1,697,734	
Scholarships, Note 10	410,007	
Project Rex/Earthquest	406,818	
Administrative:		
Professional Fees	137,556	
Contracted Services	32,846	1,397
Salaries	305,451	
Payroll Taxes	20,897	
Benefits and Retirement	72,940	
Mileage	29,513	
Payroll Costs	2,025	
Workers Compensation Insurance	2,098	
Advertising	22,381	
Dues	10,019	
Election Expense	83,957	
Office Equipment Lease	7,918	
Postage	3,323	
Computers and Software	28,989	
Office Supplies	21,093	
Subscriptions	6,432	
Travel	88,392	
Telephone	30,531	
Other	14,929	32

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

Capital Projects Fund	Other Governmental Funds	Total	Adjustments	Statement of Activities
\$ 653	\$ 779	\$ 3,450,907	\$	\$ 3,450,907
		54,542		54,542
		71,762		71,762
		57,626		57,626
			651,370	651,370
	48,473	49,907		49,907
<u>\$ 653</u>	<u>\$ 49,252</u>	<u>\$ 3,684,744</u>	<u>\$ 651,370</u>	<u>\$ 4,336,114</u>
\$	\$	\$ 463,439	\$	\$ 463,439
		1,697,734		1,697,734
		410,007		410,007
176,286		583,104		583,104
		137,556		137,556
		34,243		34,243
		305,451		305,451
		20,897		20,897
		72,940		72,940
		29,513		29,513
		2,025		2,025
		2,098		2,098
		22,381		22,381
		10,019		10,019
		83,957		83,957
		7,918		7,918
		3,323		3,323
		28,989		28,989
		21,093		21,093
		6,432		6,432
		88,392		88,392
		30,531		30,531
17	36,896	51,874		51,874

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, 2010**

	General Fund	Debt Service Fund
EXPENDITURES/EXPENSES (Continued)		
Building:		
Building Costs	\$ 4,035	\$
Contract Labor	84,791	
Chemicals	547	
Waste Removal	3,572	
Insurance	25,284	
Grounds Maintenance	55,349	
Pond Care	1,478	
Repairs and Maintenance Building	220,510	
Security	350	
Utilities	98,634	
Other		
Depreciation, Note 7		
Capital Outlay	415,170	
Conveyance to Other Governmental Entity		
Debt Service:		
Bond Principal		320,000
Bond Interest		626,127
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	\$ 4,809,008	\$ 947,556
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ (1,201,626)	\$ (920,099)
OTHER FINANCING SOURCES (USES)		
Transfers In/(Out), Note 13	\$ (801,124)	\$ 800,262
Proceeds from East Montgomery County Municipal Utility District No. 3, Note 12	651,370	
TOTAL OTHER FINANCING SOURCES (USES)	\$ (149,754)	\$ 800,262
NET CHANGE IN FUND BALANCES	\$ (1,351,380)	\$ (119,837)
CHANGE IN NET ASSETS		
FUND BALANCES/NET ASSETS – JULY 1, 2009	3,895,689	2,330,982
FUND BALANCES/NET ASSETS – JUNE 30, 2010	\$ 2,544,309	\$ 2,211,145

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

Capital Projects Fund	Other Governmental Funds	Total	Adjustments	Statement of Activities
\$	\$	\$ 4,035	\$	\$ 4,035
		84,791		84,791
		547		547
		3,572		3,572
		25,284		25,284
		55,349		55,349
		1,478		1,478
		220,510		220,510
		350		350
		98,634		98,634
			48,913	48,913
			178,082	178,082
		415,170		415,170
			1,504,900	1,504,900
		320,000	(320,000)	
		626,127	6,848	632,975
<u>3,821</u>		<u>3,821</u>		<u>3,821</u>
\$ 180,124	\$ 36,896	\$ 5,973,584	\$ 1,418,743	\$ 7,392,327
\$ (179,471)	\$ 12,356	\$ (2,288,840)	\$ (767,373)	\$ (3,056,213)
\$	\$ 862	\$	\$	\$
		651,370	(651,370)	
\$ -0-	\$ 862	\$ 651,370	\$ (651,370)	\$ -0-
\$ (179,471)	\$ 13,218	\$ (1,637,470)	\$ 1,637,470	\$
			(3,056,213)	(3,056,213)
<u>274,289</u>	<u>62,599</u>	<u>6,563,559</u>	<u>(3,284,591)</u>	<u>3,278,968</u>
\$ 94,818	\$ 75,817	\$ 4,926,089	\$ (4,703,334)	\$ 222,755

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, 2010**

Net Change in Fund Balances - Governmental Funds	\$ (1,637,470)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital expenditures in the period purchased, to comply with reporting requirements, the adjustment of capital asset organizational cost is expensed in the Statement of Activities.	(48,913)
Governmental funds do not account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expense is recorded.	(178,082)
The conveyance of capital assets to another entity is shown as an expense in the Statement of Activities.	(1,504,900)
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.	320,000
Governmental funds report interest expenditures on bonds as expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on bonds through fiscal year end.	<u>(6,848)</u>
Change in Net Assets - Governmental Activities	<u>\$ (3,056,213)</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, 2010

NOTE 1. CREATION OF DISTRICT

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. 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, 2010

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 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, 2010

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

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

Debt Service Fund – To account for financial resources 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.

Other Governmental Funds – 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, 2010

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

Capital Assets

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

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

	Years
Building and Improvements	40
Equipment	7
Furniture	7

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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

Measurement Focus

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

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or 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, 2010

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.

Subsequent Events

In preparing these financial statements management has evaluated and disclosed all material subsequent events through December 9, 2010, which is the date these statements were available to be issued.

NOTE 3. BONDS PAYABLE

	Series 2000 Sales Tax Revenue Bonds	Series 2009 Sales Tax Revenue Bonds
Amount Outstanding - June 30, 2010	\$ 4,900,000	\$ 7,635,000
Interest Rates	4.95% - 5.50%	5.50% - 6.625%
Maturity Dates – Serially Beginning/Ending	August 15, 2010/2020	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, 2010

NOTE 3. BONDS PAYABLE (Continued)

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2010:

Bond Debt Payable – July 1, 2009	\$ 12,855,000
Less: Bond Principal Retirement: Series 2000	<u>320,000</u>
Total Bond Debt Payable – June 30, 2010	<u>\$ 12,535,000</u>
Bond Debt Payable –	
Due Within One Year	\$ 340,000
Due After One Year	<u>12,195,000</u>
Total Bond Debt Payable – June 30, 2010	<u>\$ 12,535,000</u>
Original Bonds Issued	<u>\$ 14,860,000</u>

As of June 30, 2010, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
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
2016-2020	2,945,000	2,810,533	5,755,533
2021-2025	1,355,000	2,140,454	3,495,454
2026-2030	1,215,000	1,832,891	3,047,891
2031-2035	1,920,000	1,337,255	3,257,255
2036-2040	<u>3,010,000</u>	<u>534,311</u>	<u>3,544,311</u>
	<u>\$ 12,535,000</u>	<u>\$ 12,149,718</u>	<u>\$ 24,684,718</u>

Revenues pledged to service the debt from the outstanding bonds of the District include net sales and use tax receipts from the levy of a 2% local sales and use tax within the District.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

Bond Interest Reserve – July 1, 2009	\$ 1,179,600
Less: Interest Paid	<u>406,255</u>
Bond Interest Reserve – June 30, 2010	<u>\$ 773,345</u>

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

The District has adopted a policy of monthly transfers into the Debt Service Fund of amounts which result in both requirements being fully satisfied on the first day of its fiscal year.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 \$2,742,072 and the bank balance was \$2,750,214. Of the bank balance, \$2,520,214 was covered by federal depository insurance. One certificate of deposit identified as reserve was uncollateralized in the amount of \$230,000.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at June 30, 2010, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 120,651	\$ 785,000	\$ 905,651
DEBT SERVICE FUND -- (Restricted for Payment of Debt Service)	306	1,760,000	1,760,306
CAPITAL PROJECTS FUND -- (Restricted for Purchase of Capital Assets)	474		474
OTHER GOVERNMENTAL FUNDS -- (Restricted for Special Events)	<u>25,641</u>	<u>50,000</u>	<u>75,641</u>
TOTAL DEPOSITS	<u>\$ 147,072</u>	<u>\$ 2,595,000</u>	<u>\$ 2,742,072</u>

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

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 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. The Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors manages the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of the pool shares.

As of June 30, 2010, the District had the following investments and maturities:

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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>GENERAL FUND -</u>					
TexPool	\$ 576,217	\$ 576,217	\$	\$	\$
Certificates of Deposit	<u>785,000</u>	<u>785,000</u>			
Subtotal	<u>\$ 1,361,217</u>	<u>\$ 1,361,217</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>DEBT SERVICE FUND -</u>					
TexPool	\$ 432,326	\$ 432,326	\$	\$	\$
Certificates of Deposit	<u>1,760,000</u>	<u>1,760,000</u>			
Subtotal	<u>\$ 2,192,326</u>	<u>\$ 2,192,326</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>CAPITAL PROJECTS FUND -</u>					
TexPool	\$ 94,344	\$ 94,344	\$ -0-	\$ -0-	\$ -0-
<u>OTHER GOVERNMENTAL FUNDS -</u>					
Certificates of Deposit	\$ 50,000	\$ 50,000	\$ -0-	\$ -0-	\$ -0-
Total	<u>\$ 3,697,887</u>	<u>\$ 3,697,887</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2010, the District's investments in TexPool were rated "AAAm" by Standard and Poor's.

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

Restrictions

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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. In November 2009, an additional local sales and use tax of one half of one percent was approved by voters. The District collected \$3,450,907 from the levy of the sales and use tax for the fiscal year ended June 30, 2010.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010:

	<u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 1,905,854	\$	\$	\$ 1,905,854
Construction in Progress	<u>1,504,900</u>	<u> </u>	<u>(1,504,900)</u>	<u> </u>
Total Capital Assets Not Being Depreciated	<u>\$ 3,410,754</u>	<u>\$ -0-</u>	<u>\$ (1,504,900)</u>	<u>\$ 1,905,854</u>
Capital Assets at Historical Costs Subject to Depreciation				
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> </u>	<u>(48,913)</u>	<u> </u>
Total Capital Assets at Historical Costs Subject to Depreciation	<u>\$ 7,378,351</u>	<u>\$ -0-</u>	<u>\$ (48,913)</u>	<u>\$ 7,329,438</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ 1,139,494	\$ (164,840)	\$	\$ (1,304,334)
Equipment	157,658	(7,249)		(164,907)
Furniture	<u>547,532</u>	<u>(5,993)</u>	<u> </u>	<u>(553,525)</u>
Total Accumulated Depreciation	<u>\$ 1,844,684</u>	<u>\$ (178,082)</u>	<u>\$ -0-</u>	<u>\$ (2,022,766)</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 5,533,667</u>	<u>\$ (178,082)</u>	<u>\$ (48,913)</u>	<u>\$ 5,306,672</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,944,421</u>	<u>\$ (178,082)</u>	<u>\$ (1,553,813)</u>	<u>\$ 7,212,526</u>

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 terminated during the current fiscal year.

The District received \$57,626 during the current fiscal year 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. Subsequent to year end, effective August 1, the match was raised to 8%. All contributions are tax deferred.

During the current fiscal year, the District recorded \$15,905 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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10. SCHOLARSHIP PROGRAM (Continued)

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, 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, 2010 for \$500,000 and related expenses of \$15,507 and a decrease of \$105,500 for prior scholarship liabilities that were resolved.

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 \$463,439 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, 2009, was \$489,669.

During the current fiscal year, the District submitted additional invoices to District No. 3 for industrial park costs for detention and drainage and additional engineering and interest of \$161,701. These costs added to prior year costs were reimbursed in the amount of \$651,370.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

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

According to the developer, advances on additional uncompleted project costs resulted in a contingent liability at June 30, 2010, of \$361,732. In addition, unsubmitted retainage of \$19,410, and additional unsubmitted costs for industrial park improvements of \$55,316, bring the current total due to \$436,458.

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.

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

Joint Agreement with Montgomery County Emergency Services District No. 7

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

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

In the current fiscal year, the District made its annual payment of \$300,000 to ESD No. 7.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

Joint Agreement with Montgomery County Emergency Services District No. 6

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

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

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

On September 10, 2009, an amendment to that agreement set the monthly donation at \$58,164.

Joint Agreement with Montgomery County Emergency Services District No. 11

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 13. INTERFUND TRANSFERS

Transfers from the General Fund included \$862 to special events for building rentals and transfers to the Debt Service Fund for reserve requirements and debt service payments in the amount of \$800,262.

NOTE 14. RESERVED FOR ECONOMIC DEVELOPMENT

The Board of Directors elected to establish a Reserve Fund for several economic development and community projects totaling \$1,535,000. Included in this amount is \$415,000 set aside to meet the obligation to Wal-Mart as described in Note 12 above.

NOTE 15. SUBSEQUENT EVENT

Subsequent to year end, on September 15, 2010, the District issued \$4,760,000 in Series 2010 Sales Tax Revenue Refunding Bonds to refund \$4,560,000 of its Series 2000 Sales Tax Revenue Bonds.

NOTE 16. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

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EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2010

**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, 2010**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Sales Tax Revenues	\$ 4,012,000	\$ 3,450,907	\$ (561,093)
Investment Revenues	50,000	25,653	(24,347)
Hotel/Motel Taxes	30,000	71,762	41,762
Building Rents	75,200	57,626	(17,574)
Miscellaneous Revenues	<u>1,000</u>	<u>1,434</u>	<u>434</u>
TOTAL REVENUES	<u>\$ 4,168,200</u>	<u>\$ 3,607,382</u>	<u>\$ (560,818)</u>
EXPENDITURES			
Service Operations:			
Programs:			
Community Development:			
ESD No. 6 Emergency Services	\$ 744,000	\$ 436,317	\$ 307,683
ESD No. 7 Grant	300,000	382,584	(82,584)
ESD No. 11 Emergency Services		100,000	(100,000)
Administrative	500		500
Legal Fees	200	5,707	(5,507)
Special Events	100,000	110,685	(10,685)
Library Legal	1,000		1,000
Library Engineering	1,000		1,000
Community Development Grants	175,000	340,322	(165,322)
Community Development Projects	50,000	6,725	43,275
Scholarship Program	<u>500,000</u>	<u>410,007</u>	<u>89,993</u>
Total Community Development Expenditures	<u>\$ 1,871,700</u>	<u>\$ 1,792,347</u>	<u>\$ 79,353</u>
Economic Development:			
Marketing	\$ 100,000	\$ 81,586	\$ 18,414
RLF	100,000	100,240	(240)
Legal	20,000	21,496	(1,496)
Land/Building/Industrial	30,000	80,202	(50,202)
Industrial Park Engineering	20,000	36,815	(16,815)
Industrial Park Accounting	1,000		1,000
Industrial Park Capital Improvements Expense	20,000	458,494	(438,494)
	<u>1,000</u>		<u>1,000</u>
Total Economic Development Expenditures	<u>\$ 292,000</u>	<u>\$ 778,833</u>	<u>\$ (486,833)</u>
Earthquest:			
Economic Development – Project Rex	\$ 50,000	\$ 126,196	\$ (76,196)
Other Expense – Project Rex	5,000		5,000
Institute	250,000	250,000	
Engineering	10,000	100	9,900
Legal	<u>15,000</u>	<u>30,522</u>	<u>(15,522)</u>
Total Earthquest	<u>\$ 330,000</u>	<u>\$ 406,818</u>	<u>\$ (76,818)</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, 2010**

	Original and Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES (Continued)			
Administrative:			
Salaries	\$ 340,000	\$ 305,451	\$ 34,549
Payroll Taxes	26,000	20,897	5,103
Payroll Expense	2,700	2,025	675
Retirement	17,000	21,405	(4,405)
Health Insurance	72,000	51,535	20,465
Workers Comp.	2,500	2,098	402
Mileage	20,000	29,513	(9,513)
Dues/Professional Memberships	12,000	10,019	1,981
Election Expense	40,000	83,957	(43,957)
Subscriptions	7,500	6,432	1,068
Office Equipment Lease	6,000	7,918	(1,918)
Computers/Software	15,000	28,989	(13,989)
Travel & Training	85,000	88,392	(3,392)
Legal Fees	50,000	71,569	(21,569)
Advertising	15,000	22,381	(7,381)
Audit Fees	15,000	11,000	4,000
Engineering Fees	50,000	37,332	12,668
Financial Advisor	5,000	17,655	(12,655)
Accounting	40,000	32,846	7,154
Supplies	12,000	12,416	(416)
Printing	40,000	3,227	36,773
Delivery Fees	6,000	5,450	550
Postage	30,000	3,323	26,677
Telephone	30,000	30,531	(531)
Miscellaneous	5,000	14,929	(9,929)
Total Administrative Expenditures	\$ 943,700	\$ 921,290	\$ 22,410
Building:			
Legal Fees-Building	\$ 5,000	\$ 5,000	\$ 5,000
Grounds Maintenance	45,000	55,349	(10,349)
Security	6,000	350	5,650
Pond Care	1,000	1,478	(478)
Utilities	130,000	98,634	31,366
Insurance-Building	30,000	25,284	4,716
Building Expenses	1,000	4,035	(3,035)
Waste Removal	1,800	3,572	(1,772)
Pest Control	1,000	1,000	1,000
Chemicals	500	547	(47)
Repairs & Maintenance-Building	30,000	220,510	(190,510)
Building Supplies	2,000	2,000	2,000
Contract Labor	30,000	84,791	(54,791)
Events Acct. Expenditures	10,000	10,000	10,000
Capital Items	20,000	409,222	(389,222)
Building Improvements - Capital	5,000	5,948	(948)
Total Building Expenditures	\$ 318,300	\$ 909,720	\$ (591,420)

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, 2010**

	Original and Final Budget	Actual	Variance Positive (Negative)
TOTAL EXPENDITURES	\$ 3,755,700	\$ 4,809,008	\$(1,053,308)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 412,500	\$ (1,201,626)	\$(1,614,126)
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$	\$ (862)	\$ (862)
Building Transfers to Debt Service	(600,000)	(800,262)	(200,262)
Proceeds from East Montgomery County Municipal Utility District No. 3 Reimbursement	<u>219,500</u>	<u>651,370</u>	<u>431,870</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (380,500)	\$ (149,754)	\$ 230,746
NET CHANGE IN FUND BALANCE	\$ 32,000	\$ (1,351,380)	\$(1,383,380)
FUND BALANCE – JULY 1, 2009	<u>3,895,689</u>	<u>3,895,689</u>	<u> </u>
FUND BALANCE – JUNE 30, 2010	<u>\$ 3,927,689</u>	<u>\$ 2,544,309</u>	<u>\$(1,383,380)</u>

See accompanying independent auditor's report.

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EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

SUPPLEMENTARY INFORMATION

JUNE 30, 2010

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2010**

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
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			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
TOTAL	<u>\$ 4,900,000</u>	<u>\$ 1,595,709</u>	<u>\$ 6,495,709</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2010**

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
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
TOTAL	<u>\$ 7,635,000</u>	<u>\$ 10,554,009</u>	<u>\$ 18,189,009</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2010**

**ANNUAL REQUIREMENTS
FOR ALL SERIES**

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total
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
TOTAL	<u>\$ 12,535,000</u>	<u>\$ 12,149,718</u>	<u>\$ 24,684,718</u>

See accompanying independent auditor's report.