

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
JUNE 30, 2011

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
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ANNUAL FINANCIAL REPORT
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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, 2011, 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, 2011, 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 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on pages 35 through 37 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 39 through 41 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

November 10, 2011

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011. Please read it in conjunction with the District's financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The first of the government-wide statements is the Statement of Net Assets. This information is found in the Statement of Net Assets column on pages 8 through 11. The Statement of Net Assets is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 13 through 16 reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has four governmental fund types. The General Fund accounts for resources not accounted for in another fund, sales tax receipts and general expenditures. The Debt Service Fund accounts for transfers from the General Fund that are restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

FUND FINANCIAL STATEMENTS (Continued)

assigned for the acquisition or construction of major capital facilities and related costs. 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 12 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 17 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 through 33 in this report.

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$15,118 as of June 30, 2011.

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Assets		
	2011	2010	Change Positive (Negative)
Current and Other Assets	\$ 5,773,644	\$ 5,891,852	\$ (118,208)
Capital Assets (Net of Accumulated Depreciation)	<u>7,054,443</u>	<u>7,212,526</u>	<u>(158,083)</u>
Total Assets	<u>\$ 12,828,087</u>	<u>\$ 13,104,378</u>	<u>\$ (276,291)</u>
Long-Term Liabilities	\$ 11,965,000	\$ 12,195,000	\$ 230,000
Other Liabilities	<u>878,205</u>	<u>686,623</u>	<u>(191,582)</u>
Total Liabilities	<u>\$ 12,843,205</u>	<u>\$ 12,881,623</u>	<u>\$ 38,418</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ (5,211,053)	\$ (4,606,265)	\$ (604,788)
Restricted	2,001,397	2,208,894	(207,497)
Unrestricted	<u>3,194,538</u>	<u>2,620,126</u>	<u>574,412</u>
Total Net Assets	<u>\$ (15,118)</u>	<u>\$ 222,755</u>	<u>\$ (237,873)</u>

The following table provides a summary of the District's operations for the years ended June 30, 2011, and June 30, 2010. The District's net assets decreased by \$237,873 accounting for an 106.8% decrease in net assets.

	Summary of Changes in the Statement of Activities		
	2011	2010	Change Positive (Negative)
Revenues:			
Sales Tax Revenues	\$ 4,918,276	\$ 3,450,907	\$ 1,467,369
Conveyance of Facilities		651,370	(651,370)
Other Revenues	<u>190,299</u>	<u>233,837</u>	<u>(43,538)</u>
Total Revenues	<u>\$ 5,108,575</u>	<u>\$ 4,336,114</u>	<u>\$ 772,461</u>
Expenses	<u>5,346,448</u>	<u>7,392,327</u>	<u>2,045,879</u>
Change in Net Assets	\$ (237,873)	\$ (3,056,213)	\$ 2,818,340
Net Assets, Beginning of Year	<u>222,755</u>	<u>3,278,968</u>	<u>(3,056,213)</u>
Net Assets, End of Year	<u>\$ (15,118)</u>	<u>\$ 222,755</u>	<u>\$ (237,873)</u>

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2011, were \$4,707,416, a decrease of \$218,673 from prior year.

The General Fund fund balance decreased by \$152,772, primarily due to building debt funding and economic development costs.

The Debt Service Fund fund balance decreased by \$76,181 due to debt service interest and principal costs being greater than the amount of funds transferred from the General Fund.

The Capital Projects Fund fund balance increased by \$155 due to investment revenues.

The Other Governmental Funds fund balance increased by \$10,125 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 \$183,032 more than budgeted revenues, primarily due to greater than anticipated sales tax revenues received. Actual expenditures were \$523,384 more than budgeted, primarily due to expenditures for Community Development, contract labor, Capital Improvements and Earth Quest costs.

CAPITAL ASSETS

The District's investment in capital assets as of June 30, 2011, amounts to \$7,054,443 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment. 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.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2011	2010	Increase (Decrease)
Land and Land Improvements	\$ 1,925,854	\$ 1,905,854	\$ 20,000
Capital Assets Net of Accumulated Depreciation:			
Buildings and Equipment	<u>5,128,589</u>	<u>5,306,672</u>	<u>(178,083)</u>
Total Net Capital Assets	<u>\$ 7,054,443</u>	<u>\$ 7,212,526</u>	<u>\$ (158,083)</u>

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District had total bond debt payable of \$12,395,000. The changes in the debt position of the District during the fiscal year ended June 30, 2011, are summarized as follows:

Bond Debt Payable, July 1, 2010	\$ 12,535,000
Add: Refunding Bonds Issued – Series 2010	4,760,000
Less: Bond Principal Paid – Series 2000	340,000
Less: Bond Principal Refunding – Series 2000	<u>4,560,000</u>
Bond Debt Payable, June 30, 2011	<u>\$ 12,395,000</u>

The District's underlying rating is "A." The Series 2009 and Series 2010 Bonds carry an insured rating of "AA+" by S&P based on insurance issued by Assured Guaranty. The above ratings are as of June 30, 2011, and reflect all rating changes during the current fiscal year. The above ratings are as of June 30, 2011, and reflect all rating changes through that date.

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.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2011

	General Fund	Debt Service Fund
ASSETS		
Cash, Note 5	\$ 575,820	\$ 123,416
Investments, Note 5	518,071	1,995,102
Receivables:		
Sales Taxes	896,726	
Accrued Interest	448	8,093
Other	17,870	
Prepaid Costs	102,086	
Due from Other Governmental Units, Note 12	452,356	
Due from Other Funds, Note 2		8,353
Unamortized Bond Issuance Costs		
Unamortized Bond Discount		
Land, Note 7		
Capital Assets (Net of Accumulated Depreciation), Note 7		
TOTAL ASSETS	\$ 2,563,377	\$ 2,134,964

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

<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 474	\$ 85,942	\$ 785,652	\$	\$ 785,652
94,499		2,607,672		2,607,672
		896,726		896,726
		8,541		8,541
		17,870		17,870
		102,086		102,086
		452,356		452,356
		8,353	(8,353)	
			717,059	717,059
			185,682	185,682
			1,925,854	1,925,854
			5,128,589	5,128,589
<u>\$ 94,973</u>	<u>\$ 85,942</u>	<u>\$ 4,879,256</u>	<u>\$ 7,948,831</u>	<u>\$ 12,828,087</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, 2011

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 159,487	\$
Due to Other Funds, Note 2	8,353	
Accrued Interest Payable		
Deferred Rent	4,000	
Unamortized Bond Premium		
Long-Term Liabilities:		
Bonds Payable Due Within One Year, Note 3		
Bonds Payable Due After One Year, Note 3		
TOTAL LIABILITIES	\$ 171,840	\$ -0-
FUND BALANCES/NET ASSETS		
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 102,086	\$
Restricted for Debt Service		2,134,964
Restricted for Capital Projects		
Restricted for Hotel/Motel Tax Obligations	196,197	
Committed for Economic Development, Note 14	1,535,000	
Assigned for Economic Development		
Unassigned	558,254	
TOTAL FUND BALANCES	\$ 2,391,537	\$ 2,134,964
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,563,377	\$ 2,134,964
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.

<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$	\$	\$ 159,487	\$	\$ 159,487
		8,353	(8,353)	
			228,540	228,540
		4,000		4,000
			56,178	56,178
			430,000	430,000
			<u>11,965,000</u>	<u>11,965,000</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 171,840</u>	<u>\$ 12,671,365</u>	<u>\$ 12,843,205</u>
\$	\$	\$ 102,086	\$ (102,086)	\$
		2,134,964	(2,134,964)	
94,973		94,973	(94,973)	
		196,197	(196,197)	
		1,535,000	(1,535,000)	
	85,942	85,942	(85,942)	
		<u>558,254</u>	<u>(558,254)</u>	
<u>\$ 94,973</u>	<u>\$ 85,942</u>	<u>\$ 4,707,416</u>	<u>\$ (4,707,416)</u>	<u>\$ -0-</u>
<u>\$ 94,973</u>	<u>\$ 85,942</u>	<u>\$ 4,879,256</u>		
			\$ (5,211,053)	\$ (5,211,053)
			1,906,424	1,906,424
			94,973	94,973
			<u>3,194,538</u>	<u>3,194,538</u>
			<u>\$ (15,118)</u>	<u>\$ (15,118)</u>

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

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**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances - Governmental Funds		\$ 4,707,416
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Unamortized bond issuance costs and bond discounts in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		902,741
Land used in governmental activities is not a financial resource and, therefore, is not reported as an asset in governmental funds.		1,925,854
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		5,128,589
The unamortized bond premium is not payable with current financial resources and is not reported as a liability in the government funds.		(56,178)
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.		(228,540)
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	\$ (430,000)	
Bonds Payable After One Year	<u>(11,965,000)</u>	<u>(12,395,000)</u>
Total Net Assets - Governmental Activities		<u>\$ (15,118)</u>

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

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Debt Service Fund
REVENUES		
Sales Taxes, Note 6	\$ 4,918,276	\$
Investment Revenues	5,086	16,765
Hotel/Motel Taxes	87,555	
Building Rents, Note 8	48,000	
Miscellaneous Revenues	3,115	
TOTAL REVENUES	\$ 5,062,032	\$ 16,765
EXPENDITURES/EXPENSES		
Service Operations:		
Programs:		
Community Development, Note 11	\$ 416,420	\$
Economic Development	1,567,127	
Scholarships, Note 10	569,157	
Project Rex/Earthquest	414,115	
Administrative:		
Professional Fees	178,169	
Contracted Services	36,613	1,375
Salaries	293,337	
Payroll Taxes	19,900	
Benefits and Retirement	67,487	
Mileage	25,214	
Payroll Costs	2,745	
Workers Compensation Insurance	1,587	
Advertising	13,514	
Dues	12,512	
Election Expense	32,821	
Office Equipment Lease	7,307	
Postage	3,329	
Computers and Software	27,836	
Office Supplies/Expense	23,040	
Subscriptions	1,977	
Travel	135,925	
Telephone	29,927	
Other	21,331	16

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
\$	\$	\$	\$	\$
155	438	4,918,276		4,918,276
		22,444		22,444
		87,555		87,555
		48,000		48,000
	29,185	32,300		32,300
<u>\$ 155</u>	<u>\$ 29,623</u>	<u>\$ 5,108,575</u>	<u>\$ -0-</u>	<u>\$ 5,108,575</u>
\$	\$	\$	\$	\$
		416,420		416,420
		1,567,127		1,567,127
		569,157		569,157
		414,115		414,115
		178,169		178,169
		37,988		37,988
		293,337		293,337
		19,900		19,900
		67,487		67,487
		25,214		25,214
		2,745		2,745
		1,587		1,587
		13,514		13,514
		12,512		12,512
		32,821		32,821
		7,307		7,307
		3,329		3,329
		27,836		27,836
		23,040		23,040
		1,977		1,977
		135,925		135,925
		29,927		29,927
	19,498	40,845		40,845

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, 2011**

	General Fund	Debt Service Fund
EXPENDITURES/EXPENSES (Continued)		
Building:		
Building Costs	\$ 3,549	\$
Contract Labor	22,201	
Contract Labor – Maintenance	49,495	
Contract Labor – Contract Management	56,147	
Chemicals	73	
Insurance	24,652	
Grounds Maintenance	25,805	
Pond Care	1,672	
Repairs and Maintenance Building	83,812	
Security	6,737	
Utilities	108,816	
Other	35	
Depreciation, Note 7		
Capital Outlay	20,000	
Debt Service:		
Bond Principal		340,000
Bond Interest		665,328
Bond Issuance Costs		5,000
TOTAL EXPENDITURES/EXPENSES	\$ 4,304,384	\$ 1,011,719
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 757,648	\$ (994,954)
OTHER FINANCING SOURCES (USES)		
Transfers In/(Out), Note 13	\$ (910,420)	\$ 910,420
Discount on Long Term Debt Issued		(47,691)
Premium on Bonds Issued		60,131
Payment to Refunding Agent		(4,585,494)
Issuance Costs of Refunding		(178,593)
Long-Term Debt Issued, Note 15		4,760,000
TOTAL OTHER FINANCING SOURCES (USES)	\$ (910,420)	\$ 918,773
NET CHANGE IN FUND BALANCES	\$ (152,772)	\$ (76,181)
CHANGE IN NET ASSETS		
FUND BALANCES/NET ASSETS – JULY 1, 2010	2,544,309	2,211,145
FUND BALANCES/NET ASSETS – JUNE 30, 2011	\$ 2,391,537	\$ 2,134,964

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

<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$	\$ 3,549	\$	\$ 3,549
		22,201		22,201
		49,495		49,495
		56,147		56,147
		73		73
		24,652		24,652
		25,805		25,805
		1,672		1,672
		83,812		83,812
		6,737		6,737
		108,816		108,816
		35		35
			178,083	178,083
		20,000	(20,000)	
		340,000	(340,000)	
		665,328	197,764	863,092
		5,000	(5,000)	
<u>\$ -0-</u>	<u>\$ 19,498</u>	<u>\$ 5,335,601</u>	<u>\$ 10,847</u>	<u>\$ 5,346,448</u>
<u>\$ 155</u>	<u>\$ 10,125</u>	<u>\$ (227,026)</u>	<u>\$ (10,847)</u>	<u>\$ (237,873)</u>
\$	\$	\$	\$	\$
		(47,691)	47,691	
		60,131	(60,131)	
		(4,585,494)	4,585,494	
		(178,593)	178,593	
		4,760,000	(4,760,000)	
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 8,353</u>	<u>\$ (8,353)</u>	<u>\$ -0-</u>
\$ 155	\$ 10,125	\$ (218,673)	\$ 218,673	\$
			(237,873)	(237,873)
<u>94,818</u>	<u>75,817</u>	<u>4,926,089</u>	<u>(4,703,334)</u>	<u>222,755</u>
<u>\$ 94,973</u>	<u>\$ 85,942</u>	<u>\$ 4,707,416</u>	<u>\$ (4,722,534)</u>	<u>\$ (15,118)</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, 2011**

Net Change in Fund Balances - Governmental Funds	\$ (218,673)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital expenditures in the period purchased. In the Statement of Net Assets, capital expenditures are capitalized and depreciated over the estimated useful life of the assets.	20,000
Governmental funds do not account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expense is recorded.	(178,083)
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.	340,000
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.	(197,764)
Governmental funds report bond issuance costs, bond discounts and bond premiums on refunding bonds as other financing sources or uses. In the Statement of Net Assets, these costs are amortized over the life of the bonds.	166,153
Governmental funds report the payment to the refunding bond escrow agent as an other financing use. However, the refunding of outstanding bonds reduces the long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	4,590,494
Governmental funds report bond proceeds as other financing sources. The issuance of long-term debt increases liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	<u>(4,760,000)</u>
Change in Net Assets - Governmental Activities	<u>\$ (237,873)</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, 2011

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 Texas Commission on Environmental Quality (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 for inclusion as a

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

GASB Codification Section 2200.110 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. GASB Codification Section 2200.117 requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

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

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

Government-Wide Financial Statements

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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 restricted, committed or assigned for servicing bond debt.

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

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible within the current

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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. At June 30, 2011, the General Fund owed the Debt Service Fund \$8,353 for Series 2010 Refunding Bond issuance costs.

Capital Assets

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

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

	Years
Building and Improvements	40
Equipment	7
Furniture	7

Budgeting

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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

Measurement Focus

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

Fund Balance

The District has adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions* which requires the classification of fund balances in governmental funds using the following hierarchy:

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

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes.

Unassigned: all other spendable amounts in the General Fund.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

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

Accounting Estimates

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

NOTE 3. BONDS PAYABLE

	Series 2009 Sales Tax Revenue Bonds	Series 2010 Sales Tax Revenue Refunding Bonds
Amount Outstanding - June 30, 2011	\$ 7,635,000	\$ 4,760,000
Interest Rates	5.50% - 6.625%	1.00% - 3.375%
Maturity Dates – Serially Beginning/Ending	August 15, 2012/2039	August 15, 2011/2022
Interest Payment Dates	August 15/ February 15	August 15/ February 15
Callable Dates	August 15, 2022**	August 15, 2016*

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

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

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2011:

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3. BONDS PAYABLE (Continued)

Bond Debt Payable – July 1, 2010	\$ 12,535,000
Add: Refunding Bonds Sold – Series 2010	4,760,000
Less: Bond Principal Paid – Series 2000	340,000
Less: Bond Principal Refunded - Series 2000	<u>4,560,000</u>
Total Bond Debt Payable – June 30, 2011	<u>\$ 12,395,000</u>
Bond Debt Payable –	
Due Within One Year	\$ 430,000
Due After One Year	<u>11,965,000</u>
Total Bond Debt Payable – June 30, 2011	<u>\$ 12,395,000</u>
Original Bonds Issued	<u>\$ 14,860,000</u>
Refunding Bonds Issued	<u>\$ 4,760,000</u>

As of June 30, 2011, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 430,000	\$ 611,839	\$ 1,041,839
2013	425,000	604,137	1,029,137
2014	435,000	592,836	1,027,836
2015	445,000	581,137	1,026,137
2016	455,000	567,162	1,022,162
2017-2021	2,545,000	2,572,327	5,117,327
2022-2026	1,715,000	2,107,098	3,822,098
2027-2031	1,335,000	1,753,997	3,088,997
2032-2036	2,100,000	1,204,093	3,304,093
2037-2040	<u>2,510,000</u>	<u>351,461</u>	<u>2,861,461</u>
	<u>\$ 12,395,000</u>	<u>\$ 10,946,087</u>	<u>\$ 23,341,087</u>

Revenues pledged to service the debt from the outstanding bonds of the District include ¼% of the Sales Tax collections within the District. See also 6.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2010	\$ 773,345
Less: Interest Paid	<u>487,506</u>
Bond Interest Reserve – June 30, 2011	<u>\$ 285,839</u>

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

The District has adopted a policy of making monthly transfers into the Debt Service Fund of amounts which result in both requirements being fully satisfied on the first day of its fiscal year. See Note 13.

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.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$3,130,652 and the bank balance was \$3,164,723. Of the bank balance, \$2,807,702 was covered by federal depository insurance, the balance was covered by collateral pledged in the name of the District and held in a third party depository. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at June 30, 2011, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 575,820	\$ 500,000	\$ 1,075,820
DEBT SERVICE FUND	123,416	1,845,000	1,968,416
CAPITAL PROJECTS FUND	474		474
OTHER GOVERNMENTAL FUNDS	<u>85,942</u>	<u> </u>	<u>85,942</u>
TOTAL DEPOSITS	<u>\$ 785,652</u>	<u>\$ 2,345,000</u>	<u>\$ 3,130,652</u>

Investments

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

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (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, 2011, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
GENERAL FUND -					
TexPool	\$ 18,071	\$ 18,071	\$	\$	\$
Certificates of Deposit	<u>500,000</u>	<u>500,000</u>			
Subtotal	<u>\$ 518,071</u>	<u>\$ 518,071</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
DEBT SERVICE FUND -					
TexPool	\$ 150,102	\$ 150,102	\$	\$	\$
Certificates of Deposit	<u>1,845,000</u>	<u>1,845,000</u>			
Subtotal	<u>\$ 1,995,102</u>	<u>\$ 1,995,102</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
CAPITAL PROJECTS FUND -					
TexPool	\$ 94,499	\$ 94,499	\$ -0-	\$ -0-	\$ -0-
Total	<u>\$ 2,607,672</u>	<u>\$ 2,607,672</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011, the District's investment in TexPool was rated "AAAm" by Standard and Poor's.

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

Restrictions

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

NOTE 6. SALES AND USE TAX REVENUES

In September 1997, the voters of the District authorized the District's Board of Directors to levy and collect a one-percent sales and use tax within the District, subject to the applicable provisions of the Texas Tax Code. In November 2009, an additional local sales and use tax of one half of one percent was approved by voters. The District relies on this tax for the funding of substantially all of its programs, functions and services. Three-quarters of one percent (3/4%) of the sales tax collections will be pledged to the payment of bonds. The District collected \$4,918,276 from the levy of the sales and use tax for the fiscal year ended June 30, 2011.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>June 30, 2011</u>
Capital Assets Not Being Depreciated			
Land and Land Improvements	\$ 1,905,854	\$ _____	\$ 1,925,854
Capital Assets at Historical Costs Subject to Depreciation			
Buildings and Equipment	\$ 7,329,438	\$ -0-	\$ 7,329,438
Less Accumulated Depreciation			
Buildings and Equipment	\$ 2,022,766	\$ 178,083	\$ 2,200,849

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7. CAPITAL ASSETS (Continued)

	<u>July 1, 2010</u>	<u>Increases</u>	<u>June 30, 2011</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ <u>5,306,672</u>	\$ <u>(178,083)</u>	\$ <u>5,128,589</u>
Total Capital Assets, Net of Accumulated Depreciation	\$ <u>7,212,526</u>	\$ <u>(158,083)</u>	\$ <u>7,054,443</u>

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

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, and the Community Chamber of Commerce on April 1, 2002.

The District received \$48,000 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 12-month calendar year. Benefits provided by the plan are not insured by the Pension Benefit Guaranty Corporation (PBGC). The Plan's administrator is the District, and contributions are held in a Trust Fund with trustees responsible for safekeeping. Eligibility requirements include completion of six months of service and attainment of the age of 21.

The District makes matching contributions up to 8% of each employee's contribution into the plan. All contributions are tax deferred. During the current fiscal year, the District recorded \$16,838 as its contribution to the plan.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10. SCHOLARSHIP PROGRAM

The District established an endowed scholarship program with East Montgomery County Scholarship Foundation ("EMCSF"). The District has committed to make an Annual Scholarship Contribution which refers to the total contribution to be made by the District to EMCSF consisting of an amount sufficient to fund 100% of the annual scholarship cost and any administrative costs of EMCSF and an annual contribution of an amount not less than \$50,000 for the growth of the EMCID Educational Scholarship Endowment Fund until the fund is sufficient to generate annual interest and earnings in an amount adequate to pay for the annual scholarships awarded under the Scholarship Program and administrative costs of EMCSF. Contribution expense was recognized under the current agreement for the year ended June 30, 2011, for \$565,000 and related expenses of \$4,157.

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 \$416,420 in community grants to various organizations.

NOTE 12. COMMITMENTS AND CONTINGENCIES

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

The District entered into an agreement with East Montgomery County Municipal Utility District No. 3 ("District No. 3") for the construction of certain utilities necessary to provide water, sewer, and drainage services to the service area, and to convey those utilities to District No. 3 upon their completion. Under the agreement, the costs, including interest, are to be reimbursed with the proceeds of bonds to be issued by District No. 3.

During the current fiscal year, the District submitted additional invoices to District No. 3 for industrial park costs for detention and drainage and additional engineering and interest of \$15,899. These costs added to prior year costs are due in the amount of \$452,356.

District No. 3 has a bond issue pending for reimbursement of these costs.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

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

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

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

Joint Agreement with Montgomery County Emergency Services District No. 7

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

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

On September 22, 2009, the District entered into an agreement based on authorized additional sales taxes to make an additional monthly donation of \$6,250 beginning April 1, 2010, and continuing monthly until 12 consecutive monthly donations are equal to or greater than \$263,000, at which time additional donation will cease.

In the current fiscal year, the District made payments of \$532,734 to ESD No. 7.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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. The entire loan amount has been paid to ESD No. 6. The loan has not been recorded as a receivable from ESD No. 6 as it is expected to eventually be treated as a grant to ESD No. 6.

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

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

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

Joint Agreement with Montgomery County Emergency Services District No. 11

On September 2, 2009, the District agreed to make an annual donation to Montgomery County Emergency Services District No. 11 ("ESD No. 11") in the amount of \$100,000 beginning April 1, 2010, and continuing each year during the term of the agreement (25 years) for improvements that improve, enhance, or support public safety and security, fire protection, emergency medical services, or law enforcement in the District. 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, 2011

NOTE 13. INTERFUND TRANSFERS

The District transferred \$910,420 from the General Fund to the Debt Service Fund to provide for current and future debt service payments on the outstanding bonds.

NOTE 14. COMMITTED FOR ECONOMIC DEVELOPMENT

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

NOTE 15. REFUNDING BOND ISSUE

On September 30, 2010, the District closed on the sale of its \$4,760,000 Series 2010 Sales Tax Revenue Refunding Bonds, the proceeds of which were used to refund \$4,560,000 of Series 2000 Bonds.

The District refunded the following bonds to restructure its total outstanding debt, the effect of which was to decrease its total debt service requirement by \$333,305.

<u>Issue</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Callable Dates</u>	<u>Outstanding at June 30, 2011</u>
2000	5.05% - 5.50%	2011 - 2020	08/15/2010	<u>\$ -0-</u>

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.

EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2011

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, 2011

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Sales Tax Revenues	\$ 4,700,000	\$ 4,918,276	\$ 218,276
Investment Revenues	26,000	5,086	(20,914)
Hotel/Motel Taxes	90,000	87,555	(2,445)
Building Rents	53,000	48,000	(5,000)
Miscellaneous Revenues	10,000	3,115	(6,885)
TOTAL REVENUES	\$ 4,879,000	\$ 5,062,032	\$ 183,032
EXPENDITURES			
Service Operations:			
Programs:			
Community Development:			
ESD No. 6 Donation	\$ 696,000	\$ 848,122	\$ (152,122)
ESD No. 7 Grant	458,000	382,584	75,416
ESD No. 11 Donation	100,000	100,000	
Administrative	500	57	443
Legal Fees	5,000	7,625	(2,625)
Special Events	100,000	142,876	(42,876)
Community Development Grants	200,000	265,862	(65,862)
Scholarship Program	550,000	569,157	(19,157)
Total Community Development Expenditures	\$ 2,109,500	\$ 2,316,283	\$ (206,783)
Economic Development:			
Marketing	\$ 100,000	\$ 114,788	\$ (14,788)
Legal	20,000	35,417	(15,417)
Land/Building/Industrial	30,000	21,895	8,105
Industrial Park Engineering	20,000	11,191	8,809
Industrial Park Capital Improvements	20,000	20,000	
Expense	1,000	3,130	(2,130)
Total Economic Development Expenditures	\$ 191,000	\$ 206,421	\$ (15,421)
Earth Quest:			
Economic Development – Project Rex	\$ 25,000	\$ 18,695	\$ 6,305
Other Expense – Earthquest	5,000		5,000
Institute	200,000	250,000	(50,000)
Engineering	10,000		10,000
Legal	20,000	145,420	(125,420)
Total Earth Quest	\$ 260,000	\$ 414,115	\$ (154,115)

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, 2011**

	Original and Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES (Continued)			
Administrative:			
Salaries	\$ 340,000	\$ 293,337	\$ 46,663
Payroll Taxes	26,000	19,900	6,100
Payroll Expense	2,700	2,745	(45)
Retirement	23,000	22,338	662
Health Insurance	72,000	45,149	26,851
Workers Comp.	2,500	1,587	913
Mileage	30,000	25,214	4,786
Dues/Professional Memberships	12,000	12,512	(512)
Election Expense		32,821	(32,821)
Subscriptions	5,000	1,977	3,023
Office Equipment Lease	9,000	7,307	1,693
Computers/Software	20,000	27,836	(7,836)
Travel & Training	85,000	135,925	(50,925)
Legal Fees	75,000	127,040	(52,040)
Advertising	25,000	13,514	11,486
Audit Fees	15,000	11,250	3,750
Engineering Fees	35,000	35,259	(259)
Financial Advisor	10,000	4,620	5,380
Accounting	25,000	36,613	(11,613)
Supplies	12,000	9,486	2,514
Printing	5,000	7,520	(2,520)
Delivery Fees	6,000	6,034	(34)
Postage	5,000	3,329	1,671
Telephone	32,000	29,927	2,073
Miscellaneous	11,200	21,331	(10,131)
Total Administrative Expenditures	\$ 883,400	\$ 934,571	\$ (51,171)
Building:			
Legal Fees-Building	\$ 5,000	\$	\$ 5,000
Grounds Maintenance	45,000	25,805	19,195
Security		6,737	(6,737)
Pond Care	1,000	1,672	(672)
Utilities	100,000	108,816	(8,816)
Insurance-Building	30,000	24,652	5,348
Building Expenses	1,000	3,584	(2,584)
Waste Removal	3,500		3,500
Pest Control	1,000		1,000
Chemicals	500	73	427
Repairs & Maintenance-Building	68,000	83,812	(15,812)
Building Supplies	4,000		4,000
Contract Labor	30,600	22,201	8,399
Contract Labor - Maintenance		49,495	(49,495)
Contract Labor - Contract Management		56,147	(56,147)
Events Acct. Expenditures	2,500		2,500
Capital Items	45,000	50,000	(5,000)
Total Building Expenditures	\$ 337,100	\$ 432,994	\$ (95,894)

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, 2011**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
TOTAL EXPENDITURES	\$ 3,781,000	\$ 4,304,384	\$ (523,384)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 1,098,000	\$ 757,648	\$ (340,352)
OTHER FINANCING SOURCES (USES)			
Transfers to Debt Service	\$ (1,078,000)	\$ (910,420)	\$ 167,580
NET CHANGE IN FUND BALANCE	\$ 20,000	\$ (152,772)	\$ (172,772)
FUND BALANCE – JULY 1, 2010	<u>2,544,309</u>	<u>2,544,309</u>	_____
FUND BALANCE – JUNE 30, 2011	<u>\$ 2,564,309</u>	<u>\$ 2,391,537</u>	<u>\$ (172,772)</u>

See accompanying independent auditor's report.

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EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

SUPPLEMENTARY INFORMATION

JUNE 30, 2011

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2011**

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
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>\$ 10,066,503</u>	<u>\$ 17,701,503</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2011**

SERIES - 2010 REFUNDING

<u>Due During Fiscal Years Ending June 30</u>	<u>Principal Due August 15</u>	<u>Interest Due August 15/ February 15</u>	<u>Total</u>
2012	\$ 430,000	\$ 124,333	\$ 554,333
2013	360,000	118,581	478,581
2014	365,000	111,330	476,330
2015	370,000	103,981	473,981
2016	375,000	94,656	469,656
2017	385,000	83,256	468,256
2018	390,000	71,631	461,631
2019	400,000	59,781	459,781
2020	405,000	47,707	452,707
2021	415,000	35,147	450,147
2022	425,000	21,756	446,756
2023	440,000	7,425	447,425
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
TOTAL	<u>\$ 4,760,000</u>	<u>\$ 879,584</u>	<u>\$ 5,639,584</u>

See accompanying independent auditor's report.

**EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2011**

**ANNUAL REQUIREMENTS
FOR ALL SERIES**

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2012	\$ 430,000	\$ 611,839	\$ 1,041,839
2013	425,000	604,137	1,029,137
2014	435,000	592,836	1,027,836
2015	445,000	581,137	1,026,137
2016	455,000	567,162	1,022,162
2017	475,000	550,662	1,025,662
2018	490,000	533,337	1,023,337
2019	510,000	515,187	1,025,187
2020	525,000	496,363	1,021,363
2021	545,000	476,778	1,021,778
2022	565,000	455,962	1,020,962
2023	595,000	433,325	1,028,325
2024	170,000	416,556	586,556
2025	185,000	406,349	591,349
2026	200,000	394,906	594,906
2027	220,000	382,044	602,044
2028	240,000	367,956	607,956
2029	265,000	352,491	617,491
2030	290,000	335,494	625,494
2031	320,000	316,012	636,012
2032	350,000	293,819	643,819
2033	380,000	269,637	649,637
2034	415,000	243,303	658,303
2035	455,000	214,484	669,484
2036	500,000	182,850	682,850
2037	545,000	148,235	693,235
2038	595,000	110,472	705,472
2039	655,000	69,070	724,070
2040	715,000	23,684	738,684
TOTAL	<u>\$ 12,395,000</u>	<u>\$ 10,946,087</u>	<u>\$ 23,341,087</u>

See accompanying independent auditor's report.

