

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF HARRIS }

I, Chris Swedlund of the
(Name of Duly Authorized District Representative)
Montrose Management District
(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the 13th day of August, 2012, its annual audit report for the fiscal year or period ended December 31, 2011 and that copies of the annual audit report have been filed in the district office, located at

10103 Fondren Road, Suite 300 – Houston, TX 77096

(Address of District)

The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

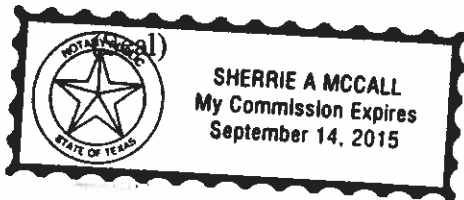
Date: October 2, 2012.

By: Chris Swedlund
(Signature of District Representative)

Chris Swedlund, Auditor

(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this the 2nd day of October, 2012.



Sherrie A. McCall
(Signature of Notary)

My Commission Expires On: September 14, 2015.
Notary Public in the State of Texas.

TEXAS WATER CODE SECTION 49.194
Filing of Audits, Affidavits, and Financial Reports

- (a) After the board has approved the audit, it shall submit a copy of the report to the executive director for filing within 135 days after the close of the district's fiscal year.
- (b) If the board refuses to approve the annual audit report, the board shall submit a copy of the report to the executive director for filing within 135 days after the close of the district's fiscal year, accompanied by a statement from the board explaining the reasons for its failure to approve the report.
- (c) Copies of the audit, the annual financial dormancy affidavit, or annual financial report described in Sections 49.197 and 49.198 shall be filed annually in the office of the district.
- (d) Each district shall file with the executive director an annual filing affidavit in a format prescribed by the executive director, executed by a duly authorized representative of the board, stating that all copies of the annual audit report, annual financial dormancy affidavit, or annual financial report have been filed under this section.
- (e) The annual filing affidavit shall be submitted with the applicable annual document when it is submitted to the executive director for filing as prescribed by this subchapter.
- (f) The executive director shall file with the attorney general the names of any districts that do not comply with the provisions of this subchapter.

THE ANNUAL FILING AFFIDAVIT IS PRINTED ON THE OTHER SIDE

Please review the affidavit, making sure it has been fully completed, signed, and notarized. Attach the affidavit to the audit report before mailing. Submit the completed affidavit and audit report to:

Reports & Supervision Team – MC 152
TCEQ – Water Utilities Division
P.O. Box 13087
Austin, Texas 78711-3087

MONTROSE MANAGEMENT DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2011

MONTROSE MANAGEMENT DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2011

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Board of Directors
Montrose Management District
Harris County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Montrose Management District (the "District"), as of and for the year ended December 31, 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 opinions on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 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
Montrose Management District

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7 and the Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Governmental Funds on pages 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

August 13, 2012

MONTROSE MANAGEMENT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

Management's discussion and analysis of the Montrose Management District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2011. Please read it in conjunction with the District's financial statements, which begin on page 8.

CONSOLIDATION AND CREATION OF DISTRICT

On February 15, 2011, the Harris County Improvement District No. 6, also known as the East Montrose Management District ("East Zone"), and the Harris County Improvement District No. 11, also known as the West Montrose Management District ("West Zone"), lawfully consolidated and became known as the Montrose Management District (the "District").

FINANCIAL STATEMENT PRESENTATION

For the purposes of this annual report and for actual to budget comparisons, the District's government-wide and fund financial statements are being presented as if the consolidation became effective on January 1, 2011. With the first-year audit, the District is not presenting comparable prior-year columns in the various government-wide comparisons and analyses. In future years, when prior-year information is available on a comparable basis, a comparative analysis of government-wide changes in net assets will be presented.

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 basic 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 government-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 and 9. 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

**MONTROSE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

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 11 and 12 reports how the District's net assets changed during the current 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 two major governmental funds. General Funds for the East Zone and West Zone account for resources not accounted for in another fund, assessment revenues, costs and general expenditures.

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 10 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 13 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 14 through 23 in this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). Budgetary comparison schedules are included as RSI for the Governmental Funds Total and East Zone and West Zone General Funds.

**MONTROSE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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 \$576,731 as of December 31, 2011.

	<u>Summary of the Statement of Net Assets</u>
	<u>2011</u>
Current and Other Assets	\$ 1,988,293
Capital Assets (Net of Accumulated Depreciation)	<u>28,923</u>
Total Assets	<u>\$ 2,017,216</u>
Other Liabilities	\$ 114,531
Deferred Revenues	<u>1,325,954</u>
Total Liabilities	<u>\$ 1,440,485</u>
Net Assets:	
Invested in Capital Assets	\$ 28,923
Unrestricted	<u>547,808</u>
Total Net Assets	<u>\$ 576,731</u>

**MONTROSE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the year ended December 31, 2011. The District's net assets increased by \$291,815.

	<u>Summary of the Statement of Activities</u>
	<u>2011</u>
Revenues:	
Property Assessments	\$ 1,210,347
Other Revenues	<u>55,841</u>
Total Revenues	\$ 1,266,188
Expenses for Services	<u>974,373</u>
Change in Net Assets	\$ 291,815
Net Assets, Beginning of Year	<u>284,916</u>
Net Assets, End of Year	<u><u>\$ 576,731</u></u>

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The General Fund fund balances for the East Zone and West Zone increased by \$45,271 and \$181,765, respectively, due to assessment revenues exceeding current year expenditures.

GENERAL FUNDS BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the General Fund budgets during the current fiscal year. Governmental funds total revenues were \$38,564 more than budgeted and governmental funds total expenditures were \$111,555 less than budgeted. East Zone revenues were \$17,615 more than budgeted due to more assessment revenue collected than anticipated. East Zone expenditures were \$113,094 less than budgeted. West Zone revenues were \$20,949 more than budgeted due to more penalty and interest collected than anticipated. West Zone expenditures were \$1,539 more than budgeted. See the budget to actual comparisons on pages 25 through 27.

**MONTROSE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2011, amounts to \$28,923. This investment in capital assets includes two vehicles and related equipment.

Capital Assets At Year-End, Net of Accumulated Depreciation

Capital Assets Subject to Depreciation:	
Automobiles and Equipment	<u>\$ 28,923</u>

Additional information on the District's capital assets can be found in Note 5 on page 22 of this report.

LONG-TERM DEBT ACTIVITY

The District does not have any long-term debt as of December 31, 2011.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montrose Management District, c/o Hawes Hill Calderon LLP, P.O. Box 22167, Houston, TX, 77227-2167.

**MONTROSE MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2011**

	East Zone General Fund	West Zone General Fund	Governmental Funds Total
ASSETS			
Cash, Note 3	\$ 186,052	\$ 193,409	\$ 379,461
Investments, Note 3	250,000	150,000	400,000
Receivables:			
Assessments	379,842	826,889	1,206,731
Accrued Interest	610	291	901
Due from Other Fund		3,005	3,005
Prepaid Costs	390	810	1,200
Capital Assets (Net of Accumulated Depreciation), Note 5			
TOTAL ASSETS	<u>\$ 816,894</u>	<u>\$ 1,174,404</u>	<u>\$ 1,991,298</u>
LIABILITIES			
Accounts Payable	\$ 33,622	\$ 74,304	\$ 107,926
Due to Taxpayers	6,596	9	6,605
Due to Other Fund	3,005		3,005
Deferred Assessment Revenue	<u>435,727</u>	<u>918,326</u>	<u>1,354,053</u>
TOTAL LIABILITIES	<u>\$ 478,950</u>	<u>\$ 992,639</u>	<u>\$ 1,471,589</u>
FUND BALANCES/NET ASSETS			
FUND BALANCES			
Nonspendable Prepaid Costs, Note 2	\$ 390	\$ 810	\$ 1,200
Assigned, Note 6	143,648	180,955	324,603
Unassigned	<u>193,906</u>		<u>193,906</u>
TOTAL FUND BALANCES	<u>\$ 337,944</u>	<u>\$ 181,765</u>	<u>\$ 519,709</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 816,894</u>	<u>\$ 1,174,404</u>	<u>\$ 1,991,298</u>
NET ASSETS			
Invested in Capital Assets Unrestricted			
TOTAL NET ASSETS			

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

<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$	\$ 379,461
	400,000
	1,206,731
	901
(3,005)	1,200
<u>28,923</u>	<u>28,923</u>
<u>\$ 25,918</u>	<u>\$ 2,017,216</u>
\$	\$ 107,926
	6,605
(3,005)	
<u>(28,099)</u>	<u>1,325,954</u>
<u>\$ (31,104)</u>	<u>\$ 1,440,485</u>
\$ (1,200)	\$
(324,603)	
<u>(193,906)</u>	<u></u>
<u>\$ (519,709)</u>	<u>\$ -0-</u>
\$ 28,923	\$ 28,923
<u>547,808</u>	<u>547,808</u>
<u>\$ 576,731</u>	<u>\$ 576,731</u>

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

**MONTROSE MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Total Fund Balances - Governmental Funds	\$ 519,709
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	28,923
Deferred assessment revenues for the 2010 and prior levies became part of recognized revenues in the governmental activities of the District.	<u>28,099</u>
Total Net Assets - Governmental Activities	<u>\$ 576,731</u>

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

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**MONTROSE MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	East Zone General Fund	West Zone General Fund
REVENUES		
Assessment Revenues	\$ 363,651	\$ 852,642
Penalty and Interest	10,510	20,258
Investment Revenues	984	613
Miscellaneous Revenues	8,444	15,032
TOTAL REVENUES	\$ 383,589	\$ 888,545
EXPENDITURES/EXPENSES		
Service Operations:		
Security and Public Safety	\$ 180,407	\$ 226,280
Mobility and Transportation	2,546	125,288
Visual Improvements and Cultural	23,080	20,791
Business Development	41,502	59,590
Administrative Expenditures	90,783	274,831
Depreciation, Note 5		
TOTAL EXPENDITURES/EXPENSES	\$ 338,318	\$ 706,780
NET CHANGE IN FUND BALANCES	\$ 45,271	\$ 181,765
CHANGE IN NET ASSETS		
FUND BALANCES/NET ASSETS – JANUARY 1, 2011	292,673	
FUND BALANCES/NET ASSETS – DECEMBER 31, 2011	\$ 337,944	\$ 181,765

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

Governmental Funds Total	Adjustments	Statement of Activities
\$ 1,216,293	\$ (5,946)	\$ 1,210,347
30,768		30,768
1,597		1,597
<u>23,476</u>		<u>23,476</u>
<u>\$ 1,272,134</u>	<u>\$ (5,946)</u>	<u>\$ 1,266,188</u>
\$ 406,687	\$ (24,948)	\$ 381,739
127,834		127,834
43,871		43,871
101,092		101,092
365,614	(53,882)	311,732
	<u>8,105</u>	<u>8,105</u>
<u>\$ 1,045,098</u>	<u>\$ (70,725)</u>	<u>\$ 974,373</u>
\$ 227,036	\$ (227,036)	\$
	291,815	291,815
<u>292,673</u>	<u>(7,757)</u>	<u>284,916</u>
<u>\$ 519,709</u>	<u>\$ 57,022</u>	<u>\$ 576,731</u>

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

**MONTROSE MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Change in Fund Balances - Governmental Funds	\$	227,036
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital expenditures in the period purchased. However, in the Statement of Activities, capital assets are increased by new purchases.		24,948
Governmental funds do not account for depreciation. However, in the Statement of Activities, capital assets are depreciated and depreciation expense is recorded.		(8,105)
Governmental funds did not record liabilities for unbilled services not paid within 60 days after the year end. However, in the Statement of Activities, these expenditures were recorded when the corresponding liability was incurred.		53,882
Governmental funds report assessment revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the assessments are levied.		<u>(5,946)</u>
Change in Net Assets - Governmental Activities	\$	<u>291,815</u>

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

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1. CREATION OF DISTRICT

The Harris County Improvement District No. 6, also known as the East Montrose Management District (“East Zone”), was created, effective June 17, 2005, by the Texas Legislature under provisions of House Bill No. 3518, of the 79th Legislature, Regular Session, 2005, codified as Chapter 3843, Texas Special District Local Laws Code (formerly Subchapter K, Chapter 376, Texas Local Government Code). The Harris County Improvement District No. 11, also known as the West Montrose Management District (“West Zone”), was created, effective June 19, 2009, by the Texas Legislature under provisions of House Bill 4722, of the 81st Legislature, Regular Session, 2009, codified as Chapter 3878, Texas Special District Local Laws Code (formerly Subchapter K, Chapter 376, Texas Local Government Code). Pursuant to the provisions of the Acts creating the Districts, the Districts are empowered to promote, develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, arts and entertainment, economic development, safety, and the public welfare in the Harris County Improvement District No. 6 and the Harris County Improvement District No. 11 (collectively the “Districts”). On February 15, 2011, the two Districts lawfully consolidated and became known as the Montrose Management District (the “District”).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the “Commission”).

Reporting Entity

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

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

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

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

Government-Wide Financial Statements

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

The Statement of Net Assets is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Assets.

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has two major governmental funds.

General Funds - For the East Zone and West Zone to account for resources not required to be accounted for in another fund, assessment revenues, costs and general expenditures.

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.

Annual assessments considered available by the Districts and included in revenue include the 2010 assessments collected during the period October 1, 2010 to December 31, 2011. In addition, assessments collected from January 1, 2011, to December 31, 2011, for the 2009 and prior assessment levies are included in revenues. The 2011 annual assessments for the Districts have been fully deferred to meet the operating expenditures for the 2012 fiscal year.

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred between the Districts are reported as an other financing source or use. Loans between the Districts 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:

	<u>Years</u>
Office Equipment and Fixtures	3
Vehicles	5

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund of the East Zone and the West Zone. The budgets were not amended during the current fiscal year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll tax purposes only.

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net 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

The District has adopted the provisions of GASB 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. The District's nonspendable fund balance was \$1,200 as of December 31, 2011, including prepaid rent for office space. The East Zone's portion of this balance is \$390, and the West Zone's portion is \$810.

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. The District does not have any restricted fund balances.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. See Note 6 on page 23 of this report.

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

Unassigned: all other spendable amounts in the General Fund.

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

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 August 13, 2012, which is the date these statements were available to be issued.

NOTE 3. 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 Authority 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 \$779,461 and the bank balance was \$810,257. Of the bank balance, \$716,196 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third party depository.

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheets and the Statement of Net Assets at December 31, 2011, as listed below:

	CASH	CERTIFICATES OF DEPOSIT	TOTAL
EAST ZONE GENERAL FUND	\$ 186,052	\$ 250,000	\$ 436,052
WEST ZONE GENERAL FUND	193,409	150,000	343,409
TOTAL DEPOSITS	\$ 379,461	\$ 400,000	\$ 779,461

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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10)

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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.

As of December 31, 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
<u>EAST ZONE GENERAL</u>					
<u>FUND -</u>					
Certificates of Deposit	\$ 250,000	\$ 250,000	\$	\$	\$
<u>WEST ZONE GENERAL</u>					
<u>FUND -</u>					
Certificates of Deposit	150,000	150,000			
Total Investments	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

NOTE 4. ANNUAL ASSESSMENTS

In accordance with the Acts creating the Districts, the Districts may levy ad valorem taxes or assessment fees in accordance with Chapter 375, Local Government Code, to provide improvements and services for a project or activity the Districts are authorized to acquire, construct, improve, or provide under this Act.

On April 16, 2008, an order was adopted granting a petition for a service plan and an assessment roll for the East Zone. The order authorized levying an annual assessment which would assure sufficient funding for the services provided under the ten year (2008-2017) term of the Service Plan. The order authorized an assessment of \$0.125 per \$100 valuation on land and improvements within the East Zone throughout the term of the Service Plan.

During the year ended December 31, 2011, the East Zone levied an assessment of \$0.125 per \$100 of assessed valuation of taxable real property, which resulted in an assessment of \$424,771 for the 2011 assessment year. Total revenue of \$363,651 has been recorded in the current year.

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4. ANNUAL ASSESSMENTS (Continued)

On January 10, 2011, an order was adopted granting a petition for a service plan and an assessment roll for the West Zone. The order authorized levying an annual assessment which would assure sufficient funding for the services provided under the nine year (2009-2017) term of the Service Plan. The order authorized an assessment of \$0.125 per \$100 valuation on land and improvements within the West Zone throughout the term of the Service Plan.

During the year ended December 31, 2011, the West Zone levied an assessment of \$0.125 per \$100 of assessed valuation of taxable real property, which resulted in an assessment of \$901,183 for the 2011 assessment year. Total revenue of \$852,642 has been recorded in the current year.

The District's calendar for collection of the assessments is as follows:

- Levy Date - October 1 or as soon thereafter as practicable
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011:

	<u>January 1, 2011</u>	<u>Additions</u>	<u>December 31, 2011</u>
Capital Assets at Historical Costs Subject to Depreciation			
Automobiles and Equipment	\$ 25,643	\$ 24,948	\$ 50,591
Less Accumulated Depreciation			
Automobiles and Equipment	\$ 13,563	\$ 8,105	\$ 21,668
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 12,080</u>	<u>\$ 16,843</u>	<u>\$ 28,923</u>

MONTROSE MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 6. ASSIGNED FUND BALANCE

On February 13, 2012, the Board of Directors approved the District's budget for the fiscal year ending December 31, 2012, which projects a \$143,648 decrease in the East Zone's General Fund fund balance and a \$278,822 decrease in the West Zone's General Fund fund balance. In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types*, the District has reported \$143,648 as assigned fund balance in the East Zone Governmental Funds Balance Sheet as of December 31, 2011. The District has only reported \$180,955 as assigned fund balance in the West Zone Governmental Funds Balance Sheet as of December 31, 2011, since reporting more would cause a negative unassigned fund balance.

NOTE 7. 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. The District participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide general liability, automobile, errors and omissions, law enforcement and real and personal property coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. During the fiscal year ended December 31, 2011, the District contributed a total of \$3,390 to the fund for this insurance, which included contributions of \$1,101 from the East Zone and \$2,289 from the West Zone. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

MONTROSE MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011

**MONTROSE MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – GOVERNMENTAL FUNDS TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Assessment Revenues	\$ 1,212,565	\$ 1,216,293	\$ 3,728
Penalty and Interest	20,000	30,768	10,768
Investment Revenues	1,005	1,597	592
Miscellaneous Revenues	<u> </u>	<u>23,476</u>	<u>23,476</u>
TOTAL REVENUES	<u>\$ 1,233,570</u>	<u>\$ 1,272,134</u>	<u>\$ 38,564</u>
EXPENDITURES			
Service Operations			
Security and Public Safety	\$ 403,560	\$ 406,687	\$ (3,127)
Mobility and Transportation	80,000	127,834	(47,834)
Visual Improvements and Cultural	125,000	43,871	81,129
Business Development	184,000	101,092	82,908
Administrative Expenditures	<u>364,093</u>	<u>365,614</u>	<u>(1,521)</u>
TOTAL EXPENDITURES	<u>\$ 1,156,653</u>	<u>\$ 1,045,098</u>	<u>\$ 111,555</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 76,917</u>	<u>\$ 227,036</u>	<u>\$ 150,119</u>
FUND BALANCE – JANUARY 1, 2011	<u>292,673</u>	<u>292,673</u>	<u> </u>
FUND BALANCE – DECEMBER 31, 2011	<u>\$ 369,590</u>	<u>\$ 519,709</u>	<u>\$ 150,119</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – EAST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Assessment Revenues	\$ 355,639	\$ 363,651	\$ 8,012
Penalty and Interest	10,000	10,510	510
Investment Revenues	335	984	649
Miscellaneous Revenues	<u> </u>	<u>8,444</u>	<u>8,444</u>
TOTAL REVENUES	<u>\$ 365,974</u>	<u>\$ 383,589</u>	<u>\$ 17,615</u>
EXPENDITURES			
Service Operations			
Security and Public Safety	\$ 163,575	\$ 180,407	\$ (16,832)
Mobility and Transportation		2,546	(2,546)
Visual Improvements and Cultural	100,000	23,080	76,920
Business Development	107,026	41,502	65,524
Administrative Expenditures	<u>80,811</u>	<u>90,783</u>	<u>(9,972)</u>
TOTAL EXPENDITURES	<u>\$ 451,412</u>	<u>\$ 338,318</u>	<u>\$ 113,094</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (85,438)</u>	<u>\$ 45,271</u>	<u>\$ 130,709</u>
FUND BALANCE – JANUARY 1, 2011	<u>292,673</u>	<u>292,673</u>	<u> </u>
FUND BALANCE – DECEMBER 31, 2011	<u>\$ 207,235</u>	<u>\$ 337,944</u>	<u>\$ 130,709</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – WEST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Assessment Revenues	\$ 856,926	\$ 852,642	\$ (4,284)
Penalty and Interest	10,000	20,258	10,258
Investment Revenues	670	613	(57)
Miscellaneous Revenues	<u> </u>	<u>15,032</u>	<u>15,032</u>
TOTAL REVENUES	<u>\$ 867,596</u>	<u>\$ 888,545</u>	<u>\$ 20,949</u>
EXPENDITURES			
Service Operations			
Security and Public Safety	\$ 239,985	\$ 226,280	\$ 13,705
Mobility and Transportation	80,000	125,288	(45,288)
Visual Improvements and Cultural	25,000	20,791	4,209
Business Development	76,974	59,590	17,384
Administrative Expenditures	<u>283,282</u>	<u>274,831</u>	<u>8,451</u>
TOTAL EXPENDITURES	<u>\$ 705,241</u>	<u>\$ 706,780</u>	<u>\$ (1,539)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 162,355</u>	<u>\$ 181,765</u>	<u>\$ 19,410</u>
FUND BALANCE – JANUARY 1, 2011	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE – DECEMBER 31, 2011	<u>\$ 162,355</u>	<u>\$ 181,765</u>	<u>\$ 19,410</u>

See accompanying independent auditor's report.

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MONTROSE MANAGEMENT DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
DECEMBER 31, 2011

**MONTROSE MANAGEMENT DISTRICT
GENERAL FUND EXPENDITURES – GOVERNMENTAL FUNDS TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2011**

PURCHASED SERVICES FOR RESALE:

Security and Public Safety	\$ 406,687
Mobility and Transportation	127,834
Visual Improvements and Cultural	43,871
Business Development	101,092
Administrative Expenditures	<u>365,614</u>
TOTAL EXPENDITURES	<u>\$ 1,045,098</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
GENERAL FUND EXPENDITURES – EAST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2011**

PURCHASED SERVICES FOR RESALE:	
Security and Public Safety	\$ 180,407
Mobility and Transportation	2,546
Visual Improvements and Cultural	23,080
Business Development	41,502
Administrative Expenditures	<u>90,783</u>
TOTAL EXPENDITURES	<u>\$ 338,318</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
GENERAL FUND EXPENDITURES – WEST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2011**

PURCHASED SERVICES FOR RESALE:

Security and Public Safety	\$ 226,280
Mobility and Transportation	125,288
Visual Improvements and Cultural	20,791
Business Development	59,590
Administrative Expenditures	<u>274,831</u>
TOTAL EXPENDITURES	<u>\$ 706,780</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
INVESTMENTS
DECEMBER 31, 2011**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>EAST ZONE</u>					
Certificate of Deposit	xxxxxxxx46	.40%	05/18/2012	\$ 50,000	\$ 6
Certificate of Deposit	xxxxxxxx45	.65%	01/19/2012	50,000	119
Certificate of Deposit	xxx67	.90%	02/18/2012	50,000	162
Certificate of Deposit	xxx68	.90%	03/19/2012	50,000	162
Certificate of Deposit	xxx69	.90%	04/18/2012	<u>50,000</u>	<u>161</u>
TOTAL EAST ZONE				<u>\$ 250,000</u>	<u>\$ 610</u>
<u>WEST ZONE</u>					
Certificate of Deposit	xxxxxxxx52	.40%	05/18/2012	\$ 50,000	\$ 6
Certificate of Deposit	xxxxxxxx43	.65%	01/19/2012	50,000	119
Certificate of Deposit	xxx59	.90%	02/15/2012	<u>50,000</u>	<u>166</u>
TOTAL WEST ZONE				<u>\$ 150,000</u>	<u>\$ 291</u>
GRAND TOTAL				<u>\$ 400,000</u>	<u>\$ 901</u>

See accompanying independent auditor's report.

MONTROSE MANAGEMENT DISTRICT
CHANGE IN ASSESSMENTS RECEIVABLE – GOVERNMENTAL FUNDS TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Assessments	
ASSESSMENTS RECEIVABLE –		
JANUARY 1, 2011	\$ 390,078	
Adjustments to Beginning Balance	<u>779,297</u>	\$ 1,169,375
Original 2011 Assessments Roll	\$ 1,292,938	
Adjustment to 2011 Assessments Roll	<u>33,016</u>	<u>1,325,954</u>
TOTAL TO BE ACCOUNTED FOR		\$ 2,495,329
ASSESSMENT COLLECTIONS:		
Prior Year	\$ 1,141,277	
Current Year	<u>147,321</u>	<u>1,288,598</u>
ASSESSMENTS RECEIVABLE – December 31, 2011		<u>\$ 1,206,731</u>
ASSESSMENTS RECEIVABLE BY YEAR:		
2011		\$ 1,178,633
2010		24,430
2009		2,899
2008		602
2007		<u>167</u>
		<u>\$ 1,206,731</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
CHANGE IN ASSESSMENTS RECEIVABLE – EAST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Assessments	
ASSESSMENTS RECEIVABLE –		
JANUARY 1, 2011	\$ 390,078	
Adjustments to Beginning Balance	<u>(90,488)</u>	\$ 299,590
Original 2011 Assessments Roll	\$ 413,612	
Adjustment to 2011 Assessments Roll	<u>11,159</u>	<u>424,771</u>
TOTAL TO BE ACCOUNTED FOR		\$ 724,361
ASSESSMENT COLLECTIONS:		
Prior Year	\$ 288,635	
Current Year	<u>55,884</u>	<u>344,519</u>
ASSESSMENTS RECEIVABLE – December 31, 2011		<u>\$ 379,842</u>
ASSESSMENTS RECEIVABLE BY YEAR:		
2011		\$ 368,887
2010		7,287
2009		2,899
2008		602
2007		<u>167</u>
		<u>\$ 379,842</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
CHANGE IN ASSESSMENTS RECEIVABLE – WEST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Assessments	
ASSESSMENTS RECEIVABLE – JANUARY 1, 2011	\$	
Adjustments to Beginning Balance	<u>869,785</u>	\$ 869,785
Original 2011 Assessments Roll	\$ 879,326	
Adjustment to 2011 Assessments Roll	<u>21,857</u>	<u>901,183</u>
TOTAL TO BE ACCOUNTED FOR		\$ 1,770,968
ASSESSMENT COLLECTIONS:		
Prior Year	\$ 852,642	
Current Year	<u>91,437</u>	<u>944,079</u>
ASSESSMENTS RECEIVABLE – December 31, 2011		<u>\$ 826,889</u>
ASSESSMENTS RECEIVABLE BY YEAR:		
2011		\$ 809,746
2010		<u>17,143</u>
		<u>\$ 826,889</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS TOTAL – FIVE YEARS**

	<u>Amounts</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES			
Assessment Revenues	\$ 1,216,293	\$	\$
Penalty and Interest	30,768		
Investment Revenues	1,597		
Miscellaneous Revenues	<u>23,476</u>		
TOTAL REVENUES	<u>\$ 1,272,134</u>	<u>\$</u>	<u>\$</u>
EXPENDITURES			
Service Operations:			
Security and Public Safety	\$ 406,687	\$	\$
Mobility and Transportation	127,834		
Visual Improvements and Cultural	43,871		
Business Development	101,092		
Administrative Expenditures	<u>365,614</u>		
TOTAL EXPENDITURES	<u>\$ 1,045,098</u>	<u>\$</u>	<u>\$</u>
NET CHANGE IN FUND BALANCES	\$ 227,036	\$	\$
FUND BALANCE – Beginning of the Year	<u>292,673</u>		
FUND BALANCE – End of the Year	<u>\$ 519,709</u>	<u>\$ N/A</u>	<u>\$ N/A</u>

See accompanying independent auditor's report.

		Percent of Total Revenues				
<u>2008</u>	<u>2007</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$	\$	95.6%				
		2.4				
		0.1				
		1.9	—	—	—	—
<u>\$</u>	<u>\$</u>	<u>100.0%</u>	—	—	—	—
\$	\$	32.0%				
		10.0				
		3.4				
		7.9				
		<u>28.7</u>	—	—	—	—
<u>\$</u>	<u>\$</u>	<u>82.0%</u>	—	—	—	—
\$	\$	<u>18.0%</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>\$</u>	<u>\$</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
EAST ZONE – FIVE YEARS**

	<u>Amounts</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES			
Assessment Revenues	\$ 363,651	\$ 467,273	\$ 415,987
Penalty and Interest	10,510	20,513	12,563
Investment Revenues	984	394	1,125
Miscellaneous Revenues	<u>8,444</u>	<u>13,547</u>	<u>3,368</u>
TOTAL REVENUES	<u>\$ 383,589</u>	<u>\$ 501,727</u>	<u>\$ 433,043</u>
EXPENDITURES			
Service Operations:			
Security and Public Safety	\$ 180,407	\$ 137,642	\$ 108,595
Mobility and Transportation	2,546		48,970
Visual Improvements and Cultural	23,080	12,636	14,421
Business Development	41,502	20,359	43,851
Administrative Expenditures	<u>90,783</u>	<u>148,386</u>	<u>120,961</u>
TOTAL EXPENDITURES	<u>\$ 338,318</u>	<u>\$ 319,023</u>	<u>\$ 336,798</u>
NET CHANGE IN FUND BALANCE	\$ 45,271	\$ 182,704	\$ 96,245
FUND BALANCE – Beginning of the Year	<u>292,673</u>	<u>109,969</u>	<u>13,724</u>
FUND BALANCE – End of the Year	<u>\$ 337,944</u>	<u>\$ 292,673</u>	<u>\$ 109,969</u>

* First Year Audit

See accompanying independent auditor's report.

		<u>Percent of Total Revenues</u>					
<u>2008*</u>	<u>2007</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008*</u>	<u>2007</u>	
\$ 272,455	\$	94.8%	93.1%	96.1%	97.2%		
7,563		2.7	4.1	2.9	2.7		
229		0.3	0.1	0.3	0.1		
<u>7</u>	<u></u>	<u>2.2</u>	<u>2.7</u>	<u>.7</u>	<u></u>	<u></u>	
<u>\$ 280,254</u>	<u>\$</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u></u>	
\$ 49,312	\$	47.0%	27.4%	25.1%	17.6%		
		0.7		11.3			
		6.0	2.5	3.3			
11,000		10.8	4.1	10.1	3.9		
<u>206,218</u>	<u></u>	<u>23.7</u>	<u>29.6</u>	<u>27.9</u>	<u>73.6</u>	<u></u>	
<u>\$ 266,530</u>	<u>\$</u>	<u>88.2%</u>	<u>63.6%</u>	<u>77.7%</u>	<u>95.1%</u>	<u></u>	
\$ 13,724	\$	<u>11.8%</u>	<u>36.4%</u>	<u>22.3%</u>	<u>4.9%</u>	<u>N/A</u>	
<u>\$ 13,724</u>	<u>\$ N/A</u>						

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
WEST ZONE – FIVE YEARS**

	<u>Amounts</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES			
Assessment Revenues	\$ 852,642	\$	\$
Penalty and Interest	20,258		
Investment Revenues	613		
Miscellaneous Revenues	<u>15,032</u>		
TOTAL REVENUES	<u>\$ 888,545</u>	<u>\$</u>	<u>\$</u>
EXPENDITURES			
Service Operations:			
Security and Public Safety	\$ 226,280	\$	\$
Mobility and Transportation	125,288		
Visual Improvements and Cultural	20,791		
Business Development	59,590		
Administrative Expenditures	<u>274,831</u>		
TOTAL EXPENDITURES	<u>\$ 706,780</u>	<u>\$</u>	<u>\$</u>
NET CHANGE IN FUND BALANCE	\$ 181,765	\$	\$
FUND BALANCE – Beginning of the Year			
FUND BALANCE – End of the Year	<u>\$ 181,765</u>	<u>\$ N/A</u>	<u>\$ N/A</u>

See accompanying independent auditor's report.

		<u>Percent of Total Revenues</u>				
<u>2008</u>	<u>2007</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$	\$	96.0%				
		2.3				
		0.1				
		<u>1.6</u>	—	—	—	—
<u>\$</u>	<u>\$</u>	<u>100.0%</u>	—	—	—	—
\$	\$	25.5%				
		14.1				
		2.3				
		6.7				
		<u>30.9</u>	—	—	—	—
<u>\$</u>	<u>\$</u>	<u>79.5%</u>	—	—	—	—
\$	\$	<u>20.5%</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>\$</u>	<u>\$</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

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**MONTROSE MANAGEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2011**

District Mailing Address - Montrose Management District
c/o Hawes Hill Calderon LLP
P.O. Box 22167
Houston, TX 77227-2167

District Telephone Number - (713) 595-1200

Board Members	Term of Office (Appointed)	Fees of office for the year ended December 31, 2011	Expense reimbursements for the year ended December 31, 2011	Position
Claude Wynn	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	1 – Chairman
Vacant		\$ -0-	\$ -0-	2
Randy Mitchmore	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	3 – Vice Chairman
Cassie Stinson	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	4 – Secretary
Michael Carter	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	5
Vacant		\$ -0-	\$ -0-	6
Dennis Murland	07/11 06/15 (Appointed)	\$ -0-	\$ -0-	7
Robert Jara	07/11 06/15 (Appointed)	\$ -0-	\$ -0-	8
Kathy Hubbard	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	9 – Treasurer
Michael Grover	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	10
Vacant		\$ -0-	\$ -0-	11

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2011**

Board Members (Continued)	Term of Office (Appointed)	Fees of office for the year ended <u>December 31, 2011</u>	Expense reimbursements for the year ended <u>December 31, 2011</u>	<u>Position</u>
Brad Nagar	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	12 – Assistant Secretary
Tammy Manning	07/11 06/15 (Appointed)	\$ -0-	\$ -0-	13
David Robinson	07/11 06/15 (Appointed)	\$ -0-	\$ -0-	14
Randall Ellis	07/11 06/15 (Appointed)	\$ -0-	\$ -0-	15

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2011**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2011</u>	<u>Title</u>
Vinson & Elkins First City Tower 1001 Fannin Street, Suite 2300 Houston, TX 77002	11/15/06	\$ 130,462	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	02/18/09	\$ 6,300	Auditor
Equi-Tax Inc. 17111 Rolling Creek Drive, Suite 200 Houston, TX 77090	02/20/08	\$ 23,053	Assessment Collector and Database Management
Municipal Accounts and Consulting LP 1300 Post Oak Blvd., Suite 1600 Houston, TX 77056	08/20/08	\$ 15,351	Bookkeeper
Hawes Hill Calderon LLP 10103 Fondren Road, Suite 300 Houston, TX 77096	01/31/07	\$ 251,423	Administrator
Greater East End Management District 3211 Harrisburg Houston, TX 77003	07/16/08	\$ 58,560	Graffiti Abatement
Mark M. Burton PLLC 1300 Post Oak Blvd., Suite 1600 Houston, TX 77056	11/1/09	\$ 3,650	Annual Financial Report

See accompanying independent auditor's report.