

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 12th day of June, 2013, its annual audit report for the fiscal year or period ended December 31, 2012 and that copies of the annual audit report have been filed in the district office, located at

9610 Long Point Road, Suite 150 – Houston, TX 77055
(Address of District)

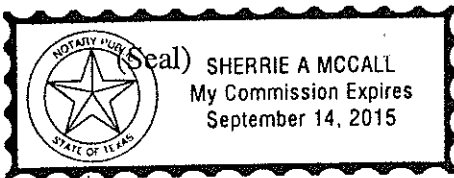
The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: August 13, 2013 .

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 13th day of August, 2013.



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, 2012

MONTROSE MANAGEMENT DISTRICT
HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montrose Management District
Harris County, Texas

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, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Board of Directors
Montrose Management District

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, 2012, 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.

Required Supplementary Information

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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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

June 12, 2013

**MONTROSE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Management's discussion and analysis of the Montrose Management District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2012. 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 Position 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 Position. This information is found in the Statement of Net Position column on pages 8 and 9. The Statement of Net Position 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 position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 11 and 12 reports how the District's net position 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. The General Funds for the East Zone and West Zone account for resources not accounted for in another fund, assessment revenues, costs and general expenditures.

**MONTROSE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

FUND FINANCIAL STATEMENTS (Continued)

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 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 FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 23 in this report.

OTHER INFORMATION

In addition to the 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, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's assets exceeded liabilities and deferred inflows of resources by \$637,341 as of December 31, 2012. A portion of the District's net position reflects its net investment in capital assets (e.g., vehicles and related equipment), less any debt used to acquire those assets that is still outstanding. The District uses these assets to provide security services.

The following is a comparative analysis of government-wide changes in net position.

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2012</u>	<u>2011</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 2,130,794	\$ 1,988,293	\$ 142,501
Capital Assets (Net of Accumulated Depreciation)	<u>18,970</u>	<u>28,923</u>	<u>(9,953)</u>
Total Assets	<u>\$ 2,149,764</u>	<u>\$ 2,017,216</u>	<u>\$ 132,548</u>
Total Liabilities	<u>\$ 87,402</u>	<u>\$ 114,531</u>	<u>\$ 27,129</u>
Deferred Inflows of Resources	<u>\$ 1,425,021</u>	<u>\$ 1,325,954</u>	<u>\$ (99,067)</u>
Net Position:			
Net Investment in Capital Assets	\$ 18,970	\$ 28,923	\$ (9,953)
Unrestricted	<u>\$ 618,371</u>	<u>\$ 547,808</u>	<u>\$ 70,563</u>
Total Net Position	<u>\$ 637,341</u>	<u>\$ 576,731</u>	<u>\$ 60,610</u>

**MONTROSE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended December 31, 2012 and December 31, 2011. The District's net position increased by \$60,610.

	Summary of Changes in the Statement of Activities		
	2012	2011	Change Positive (Negative)
Revenues:			
Property Assessments	\$ 1,304,031	\$ 1,210,347	\$ 93,684
Other Revenues	<u>36,932</u>	<u>55,841</u>	<u>(18,909)</u>
Total Revenues	\$ 1,340,963	\$ 1,266,188	\$ 74,775
Expenses for Services	<u>1,280,353</u>	<u>974,373</u>	<u>(305,980)</u>
Change in Net Position	\$ 60,610	\$ 291,815	\$ (231,205)
Net Position, Beginning of Year	<u>576,731</u>	<u>284,916</u>	<u>291,815</u>
Net Position, End of Year	<u>\$ 637,341</u>	<u>\$ 576,731</u>	<u>\$ 60,610</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The General Fund fund balance for the East Zone decreased by \$4,114 due to current year expenditures exceeding assessment revenues. The General Fund fund balance for the West Zone increased by \$69,723 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 \$13,126 more than budgeted and governmental funds total expenditures were \$463,453 less than budgeted. East Zone revenues were \$7,256 more than budgeted due to more assessment revenue collected than anticipated. East Zone expenditures were \$128,588 less than budgeted. West Zone revenues were \$5,870 more than budgeted due primarily to more collection fees than anticipated. West Zone expenditures were \$334,865 less 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, 2012**

CAPITAL ASSETS

The District's capital assets as of December 31, 2012, amount to \$18,970 (net of accumulated depreciation). These capital assets include two vehicles and related equipment.

Capital Assets At Year-End, Net of Accumulated Depreciation

Capital Assets Subject to Depreciation:	
Automobiles and Equipment	<u>\$ 18,970</u>

Additional information on the District's capital assets can be found in Note 4 on page 22 of this report.

LONG-TERM DEBT ACTIVITY

The District does not have any long-term debt as of December 31, 2012.

CONTACTING THE DISTRICT'S MANAGEMENT

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

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**MONTROSE MANAGEMENT DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2012**

	<u>East Zone General Fund</u>	<u>West Zone General Fund</u>	<u>Governmental Funds Total</u>
ASSETS			
Cash, Note 3	\$ 177,334	\$ 205,090	\$ 382,424
Investments, Note 3	250,000	150,000	400,000
Receivables:			
Assessments	404,998	941,649	1,346,647
Accrued Interest	124	59	183
Due from Other Fund		4,123	4,123
Prepaid Costs and Other	494	1,046	1,540
Capital Assets (Net of Accumulated Depreciation), Note 4			
TOTAL ASSETS	<u>\$ 832,950</u>	<u>\$ 1,301,967</u>	<u>\$ 2,134,917</u>
LIABILITIES			
Accounts Payable	\$ 32,221	\$ 36,764	\$ 68,985
Payroll Liabilities	3,757	7,903	11,660
Due to Taxpayers	6,235	522	6,757
Due to Other Fund	4,123		4,123
TOTAL LIABILITIES	<u>\$ 46,336</u>	<u>\$ 45,189</u>	<u>\$ 91,525</u>
DEFERRED INFLOWS OF RESOURCES			
Assessments	<u>\$ 452,784</u>	<u>\$ 1,005,290</u>	<u>\$ 1,458,074</u>
FUND BALANCES			
Nonspendable Prepaid Costs	\$ 390	\$ 810	\$ 1,200
Assigned, Note 7	193,489	250,678	444,167
Unassigned	<u>139,951</u>		<u>139,951</u>
TOTAL FUND BALANCES	<u>\$ 333,830</u>	<u>\$ 251,488</u>	<u>\$ 585,318</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 832,950</u>	<u>\$ 1,301,967</u>	<u>\$ 2,134,917</u>
NET POSITION			
Net Investment in Capital Assets			
Unrestricted			
TOTAL NET POSITION			

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

<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 382,424
	400,000
	1,346,647
	183
(4,123)	1,540
<u>18,970</u>	<u>18,970</u>
<u>\$ 14,847</u>	<u>\$ 2,149,764</u>
\$	\$ 68,985
	11,660
	6,757
<u>(4,123)</u>	<u></u>
<u>\$ (4,123)</u>	<u>\$ 87,402</u>
<u>\$ (33,053)</u>	<u>\$ 1,425,021</u>
\$ (1,200)	\$
(444,167)	
<u>(139,951)</u>	<u></u>
<u>\$ (585,318)</u>	<u>\$ -0-</u>
\$ 18,970	\$ 18,970
<u>618,371</u>	<u>618,371</u>
<u>\$ 637,341</u>	<u>\$ 637,341</u>

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

**MONTROSE MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Total Fund Balances - Governmental Funds	\$ 585,318
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	18,970
Deferred assessment revenues for the 2011 and prior levies became part of recognized revenues in the governmental activities of the District.	<u>33,053</u>
Total Net Position - Governmental Activities	<u>\$ 637,341</u>

The accompanying notes to the 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, 2012**

	<u>East Zone General Fund</u>	<u>West Zone General Fund</u>
REVENUES		
Assessment Revenues	\$ 418,367	\$ 880,710
Penalty and Interest	8,316	11,806
Investment Revenues	1,663	1,445
Miscellaneous Revenues	<u>5,536</u>	<u>8,166</u>
TOTAL REVENUES	<u>\$ 433,882</u>	<u>\$ 902,127</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Security and Public Safety	\$ 153,360	\$ 321,034
Mobility and Transportation	13,255	28,052
Visual Improvements and Cultural	35,092	47,518
Business Development	82,156	168,826
Administrative Expenditures	140,992	239,165
Creation and Petition Services	13,141	27,809
Depreciation, Note 4		
TOTAL EXPENDITURES/EXPENSES	<u>\$ 437,996</u>	<u>\$ 832,404</u>
NET CHANGE IN FUND BALANCES	\$ (4,114)	\$ 69,723
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION – JANUARY 1, 2012	<u>337,944</u>	<u>181,765</u>
FUND BALANCES/NET POSITION – DECEMBER 31, 2012	<u>\$ 333,830</u>	<u>\$ 251,488</u>

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

Governmental Funds Total	Adjustments	Statement of Activities
\$ 1,299,077	\$ 4,954	\$ 1,304,031
20,122		20,122
3,108		3,108
<u>13,702</u>		<u>13,702</u>
<u>\$ 1,336,009</u>	<u>\$ 4,954</u>	<u>\$ 1,340,963</u>
\$ 474,394	\$	\$ 474,394
41,307		41,307
82,610		82,610
250,982		250,982
380,157		380,157
40,950		40,950
	<u>9,953</u>	<u>9,953</u>
<u>\$ 1,270,400</u>	<u>\$ 9,953</u>	<u>\$ 1,280,353</u>
\$ 65,609	\$ (65,609)	\$
	60,610	60,610
<u>519,709</u>	<u>57,022</u>	<u>576,731</u>
<u>\$ 585,318</u>	<u>\$ 52,023</u>	<u>\$ 637,341</u>

The accompanying notes to the 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, 2012**

Net Change in Fund Balances - Governmental Funds	\$	65,609
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds do not account for depreciation. However, in the Statement of Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(9,953)
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>4,954</u>
Change in Net Position - Governmental Activities	\$	<u>60,610</u>

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

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

The 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 financial statements.

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 set forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position as into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

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

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

Government-Wide Financial Statements

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

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

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 District and included in revenue include the 2011 assessments collected during the period October 1, 2011 to December 31, 2012. In addition, assessments collected from January 1, 2012, to December 31, 2012, for the 2010 and prior assessment levies are included in revenues. The 2012 annual assessments for the District have been fully deferred to meet the operating expenditures for the 2013 fiscal year.

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred between the funds are reported as other financing sources or uses. Loans between the funds are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets, which include office equipment and fixtures and vehicles, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. 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
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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

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

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriate resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. The District's fund balances are classified using the following hierarchy:

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

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

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District 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 7.

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.

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

New Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for fiscal years beginning after December 15, 2011, provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net assets that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net assets applicable to a future reporting period. GASB Statement No. 63 has been implemented in these financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for fiscal years beginning after December 15, 2012, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 has been early implemented in these financial statements.

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 \$782,424 and the bank balance was \$831,240. Of the bank balance, \$676,812 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.

The carrying values of the deposits are included in the Governmental Funds Balance Sheets and the Statement of Net Position at December 31, 2012, as listed below:

	CASH	CERTIFICATES OF DEPOSIT	TOTAL
EAST ZONE GENERAL FUND	\$ 177,334	\$ 250,000	\$ 427,334
WEST ZONE GENERAL FUND	205,090	150,000	355,090
TOTAL DEPOSITS	\$ 382,424	\$ 400,000	\$ 782,424

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

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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) 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, 2012, 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	\$ 400,000	\$ 400,000	\$ -0-	\$ -0-	\$ -0-

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012:

	January 1, 2012	Additions	December 31, 2012
Capital Assets at Historical Costs Subject to Depreciation			
Automobiles and Equipment	\$ 50,591	\$ 0	\$ 50,591
Less Accumulated Depreciation			
Automobiles and Equipment	\$ 21,668	\$ 9,953	\$ 31,621
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 28,923</u>	<u>\$ (9,953)</u>	<u>\$ 18,970</u>

NOTE 5. 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, 2012, the East Zone levied an assessment of \$0.125 per \$100 of assessed valuation of taxable real property, which resulted in an assessment of \$440,265 for the 2012 assessment year. Total revenue of \$418,367 has been recorded in the current year.

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, 2012, the West Zone levied an assessment of \$0.125 per \$100 of assessed valuation of taxable real property, which resulted in an assessment of \$984,756 for the 2012 assessment year. Total revenue of \$880,710 has been recorded in the current year.

MONTROSE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 5. ANNUAL ASSESSMENTS (Continued)

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 6. 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, 2012, the District contributed a total of \$7,994 to the fund for this insurance, which included contributions of \$2,565 from the East Zone and \$5,429 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.

NOTE 7. ASSIGNED FUND BALANCE

On December 10, 2012, the Board of Directors approved the District's budget for the fiscal year ending December 31, 2013, which projected a \$193,489 decrease in the East Zone's General Fund fund balance and a \$428,764 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 \$193,489 as assigned fund balance in the East Zone Governmental Funds Balance Sheet as of December 31, 2012. The District has only reported \$250,678 as assigned fund balance in the West Zone Governmental Funds Balance Sheet as of December 31, 2012, since reporting more would cause a negative unassigned fund balance.

MONTROSE MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

**MONTROSE MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – GOVERNMENTAL FUNDS TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Assessment Revenues	\$ 1,297,203	\$ 1,299,077	\$ 1,874
Penalty and Interest	25,000	20,122	(4,878)
Investment Revenues	680	3,108	2,428
Miscellaneous Revenues	<u> </u>	<u>13,702</u>	<u>13,702</u>
TOTAL REVENUES	<u>\$ 1,322,883</u>	<u>\$ 1,336,009</u>	<u>\$ 13,126</u>
EXPENDITURES			
Service Operations			
Security and Public Safety	\$ 499,335	\$ 474,394	\$ 24,941
Mobility and Transportation	136,500	41,307	95,193
Visual Improvements and Cultural	439,320	82,610	356,710
Business Development	330,938	250,982	79,956
Administrative Expenditures	287,760	380,157	(92,397)
Creation and Petition Services	<u>40,000</u>	<u>40,950</u>	<u>(950)</u>
TOTAL EXPENDITURES	<u>\$ 1,733,853</u>	<u>\$ 1,270,400</u>	<u>\$ 463,453</u>
NET CHANGE IN FUND BALANCE	\$ (410,970)	\$ 65,609	\$ 476,579
FUND BALANCE – JANUARY 1, 2012	<u>519,709</u>	<u>519,709</u>	<u> </u>
FUND BALANCE – DECEMBER 31, 2012	<u>\$ 108,739</u>	<u>\$ 585,318</u>	<u>\$ 476,579</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, 2012**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Assessment Revenues	\$ 416,276	\$ 418,367	\$ 2,091
Penalty and Interest	10,000	8,316	(1,684)
Investment Revenues	350	1,663	1,313
Miscellaneous Revenues	<u> </u>	<u>5,536</u>	<u>5,536</u>
TOTAL REVENUES	<u>\$ 426,626</u>	<u>\$ 433,882</u>	<u>\$ 7,256</u>
EXPENDITURES			
Service Operations			
Security and Public Safety	\$ 160,238	\$ 153,360	\$ 6,878
Mobility and Transportation	43,803	13,255	30,548
Visual Improvements and Cultural	151,165	35,092	116,073
Business Development	106,199	82,156	24,043
Administrative Expenditures	92,343	140,992	(48,649)
Creation and Petition Services	<u>12,836</u>	<u>13,141</u>	<u>(305)</u>
TOTAL EXPENDITURES	<u>\$ 566,584</u>	<u>\$ 437,996</u>	<u>\$ 128,588</u>
NET CHANGE IN FUND BALANCE	\$ (139,958)	\$ (4,114)	\$ 135,844
FUND BALANCE – JANUARY 1, 2012	<u>337,944</u>	<u>337,944</u>	<u> </u>
FUND BALANCE – DECEMBER 31, 2012	<u>\$ 197,986</u>	<u>\$ 333,830</u>	<u>\$ 135,844</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, 2012**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Assessment Revenues	\$ 880,927	\$ 880,710	\$ (217)
Penalty and Interest	15,000	11,806	(3,194)
Investment Revenues	330	1,445	1,115
Miscellaneous Revenues	<u> </u>	<u>8,166</u>	<u>8,166</u>
TOTAL REVENUES	<u>\$ 896,257</u>	<u>\$ 902,127</u>	<u>\$ 5,870</u>
EXPENDITURES			
Service Operations			
Security and Public Safety	\$ 339,097	\$ 321,034	\$ 18,063
Mobility and Transportation	92,697	28,052	64,645
Visual Improvements and Cultural	288,155	47,518	240,637
Business Development	224,739	168,826	55,913
Administrative Expenditures	195,417	239,165	(43,748)
Creation and Petition Services	<u>27,164</u>	<u>27,809</u>	<u>(645)</u>
TOTAL EXPENDITURES	<u>\$ 1,167,269</u>	<u>\$ 832,404</u>	<u>\$ 334,865</u>
NET CHANGE IN FUND BALANCE	\$ (271,012)	\$ 69,723	\$ 340,735
FUND BALANCE – JANUARY 1, 2012	<u>181,765</u>	<u>181,765</u>	<u> </u>
FUND BALANCE – DECEMBER 31, 2012	<u>\$ (89,247)</u>	<u>\$ 251,488</u>	<u>\$ 340,735</u>

See accompanying independent auditor's report.

MONTROSE MANAGEMENT DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
DECEMBER 31, 2012

**MONTROSE MANAGEMENT DISTRICT
GENERAL FUND EXPENDITURES – GOVERNMENTAL FUNDS TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2012**

PURCHASED SERVICES FOR RESALE:	
Security and Public Safety	\$ 474,394
Mobility and Transportation	41,307
Visual Improvements and Cultural	82,610
Business Development	250,982
Administrative Expenditures	380,157
Creation and Petition Services	<u>40,950</u>
TOTAL EXPENDITURES	<u>\$ 1,270,400</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
GENERAL FUND EXPENDITURES – EAST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2012**

PURCHASED SERVICES FOR RESALE:	
Security and Public Safety	\$ 153,360
Mobility and Transportation	13,255
Visual Improvements and Cultural	35,092
Business Development	82,156
Administrative Expenditures	140,992
Creation and Petition Services	<u>13,141</u>
TOTAL EXPENDITURES	<u>\$ 437,996</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
GENERAL FUND EXPENDITURES – WEST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2012**

PURCHASED SERVICES FOR RESALE:	
Security and Public Safety	\$ 321,034
Mobility and Transportation	28,052
Visual Improvements and Cultural	47,518
Business Development	168,826
Administrative Expenditures	239,165
Creation and Petition Services	<u>27,809</u>
TOTAL EXPENDITURES	<u>\$ 832,404</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
INVESTMENTS
DECEMBER 31, 2012**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>EAST ZONE</u>					
Certificate of Deposit	xxxxxxx46	.30%	03/14/2013	\$ 50,000	\$ 32
Certificate of Deposit	xxxxxxx61	.30%	04/14/2013	50,000	19
Certificate of Deposit	xxxxxxx53	.15%	01/13/2013	50,000	28
Certificate of Deposit	xxxxxxx43	.25%	02/14/2013	50,000	37
Certificate of Deposit	xxxxxxx63	.30%	05/10/2013	<u>50,000</u>	<u>8</u>
TOTAL EAST ZONE				<u>\$ 250,000</u>	<u>\$ 124</u>
<u>WEST ZONE</u>					
Certificate of Deposit	xxxxxxx52	.30%	03/14/2013	\$ 50,000	\$ 32
Certificate of Deposit	xxxxxxx88	.30%	04/14/2013	50,000	19
Certificate of Deposit	xxxxxxx55	.30%	05/10/2013	<u>50,000</u>	<u>8</u>
TOTAL WEST ZONE				<u>\$ 150,000</u>	<u>\$ 59</u>
GRAND TOTAL				<u>\$ 400,000</u>	<u>\$ 183</u>

See accompanying independent auditor's report.

MONTROSE MANAGEMENT DISTRICT
CHANGE IN ASSESSMENTS RECEIVABLE – GOVERNMENTAL FUNDS TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	Assessments	
ASSESSMENTS RECEIVABLE –		
JANUARY 1, 2012	\$ 1,206,731	
Adjustments to Beginning Balance	<u>(21,922)</u>	\$ 1,184,809
Original 2012 Assessments Roll	\$ 1,425,021	
Adjustment to 2012 Assessments Roll	<u> </u>	<u>1,425,021</u>
TOTAL TO BE ACCOUNTED FOR		\$ 2,609,830
ASSESSMENT COLLECTIONS:		
Prior Year	\$ 1,151,756	
Current Year	<u>111,427</u>	<u>1,263,183</u>
ASSESSMENTS RECEIVABLE – December 31, 2012		<u>\$ 1,346,647</u>
ASSESSMENTS RECEIVABLE BY YEAR:		
2012		\$ 1,313,594
2011		23,168
2010		9,804
2009		38
2008		25
2007		<u>18</u>
		<u>\$ 1,346,647</u>

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
CHANGE IN ASSESSMENTS RECEIVABLE – EAST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Assessments	
ASSESSMENTS RECEIVABLE –		
JANUARY 1, 2012	\$ 379,842	
Adjustments to Beginning Balance	<u>(4,841)</u>	\$ 375,001
Original 2012 Assessments Roll	\$ 440,265	
Adjustment to 2012 Assessments Roll	<u> </u>	<u>440,265</u>
TOTAL TO BE ACCOUNTED FOR		\$ 815,266
ASSESSMENT COLLECTIONS:		
Prior Year	\$ 362,482	
Current Year	<u>47,786</u>	<u>410,268</u>
ASSESSMENTS RECEIVABLE – December 31, 2012		<u>\$ 404,998</u>
ASSESSMENTS RECEIVABLE BY YEAR:		
2012		\$ 392,479
2011		8,216
2010		4,222
2009		38
2008		25
2007		<u>18</u>
		<u>\$ 404,998</u>

See accompanying independent auditor's report.

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**MONTROSE MANAGEMENT DISTRICT
CHANGE IN ASSESSMENTS RECEIVABLE – WEST ZONE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Assessments	
ASSESSMENTS RECEIVABLE –		
JANUARY 1, 2012	\$ 826,889	
Adjustments to Beginning Balance	<u>(17,081)</u>	\$ 809,808
Original 2012 Assessments Roll	\$ 984,756	
Adjustment to 2012 Assessments Roll	<u> </u>	<u>984,756</u>
TOTAL TO BE ACCOUNTED FOR		\$ 1,794,564
ASSESSMENT COLLECTIONS:		
Prior Year	\$ 789,274	
Current Year	<u>63,641</u>	<u>852,915</u>
ASSESSMENTS RECEIVABLE – December 31, 2012		<u>\$ 941,649</u>
ASSESSMENTS RECEIVABLE BY YEAR:		
2012		\$ 921,115
2011		14,952
2010		<u>5,582</u>
		<u>\$ 941,649</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>2012</u>	<u>2011</u>	<u>2010</u>
REVENUES			
Assessment Revenues	\$ 1,299,077	\$ 1,216,293	\$
Penalty and Interest	20,122	30,768	
Investment Revenues	3,108	1,597	
Miscellaneous Revenues	<u>13,702</u>	<u>23,476</u>	
TOTAL REVENUES	<u>\$ 1,336,009</u>	<u>\$ 1,272,134</u>	<u>\$</u>
EXPENDITURES			
Service Operations:			
Security and Public Safety	\$ 474,394	\$ 406,687	\$
Mobility and Transportation	41,307	127,834	
Visual Improvements and Cultural	82,610	43,871	
Business Development	250,982	101,092	
Administrative Expenditures	380,157	365,614	
Creation and Petition Services	<u>40,950</u>		
TOTAL EXPENDITURES	<u>\$ 1,270,400</u>	<u>\$ 1,045,098</u>	<u>\$</u>
NET CHANGE IN FUND BALANCES	\$ 65,609	\$ 227,036	\$
FUND BALANCE – Beginning of the Year	<u>519,709</u>	<u>292,673</u>	
FUND BALANCE – End of the Year	<u>\$ 585,318</u>	<u>\$ 519,709</u>	<u>\$ N/A</u>

See accompanying independent auditor's report.

		Percent of Total Revenues				
<u>2009</u>	<u>2008</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$	\$	97.3%	95.6%			
		1.5	2.4			
		0.2	0.1			
		<u>1.0</u>	<u>1.9</u>			
\$	\$	<u>100.0%</u>	<u>100.0%</u>			
\$	\$	35.5%	32.0%			
		3.1	10.0			
		6.2	3.4			
		18.8	7.9			
		28.4	28.7			
		<u>3.1</u>				
\$	\$	<u>95.1%</u>	<u>82.0%</u>			
\$	\$	<u>4.9%</u>	<u>18.0%</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>2012</u>	<u>2011</u>	<u>2010</u>
REVENUES			
Assessment Revenues	\$ 418,367	\$ 363,651	\$ 467,273
Penalty and Interest	8,316	10,510	20,513
Investment Revenues	1,663	984	394
Miscellaneous Revenues	<u>5,536</u>	<u>8,444</u>	<u>13,547</u>
TOTAL REVENUES	<u>\$ 433,882</u>	<u>\$ 383,589</u>	<u>\$ 501,727</u>
EXPENDITURES			
Service Operations:			
Security and Public Safety	\$ 153,360	\$ 180,407	\$ 137,642
Mobility and Transportation	13,255	2,546	
Visual Improvements and Cultural	35,092	23,080	12,636
Business Development	82,156	41,502	20,359
Administrative Expenditures	140,992	90,783	148,386
Creation and Petition Services	<u>13,141</u>		
TOTAL EXPENDITURES	<u>\$ 437,996</u>	<u>\$ 338,318</u>	<u>\$ 319,023</u>
NET CHANGE IN FUND BALANCE	\$ (4,114)	\$ 45,271	\$ 182,704
FUND BALANCE – Beginning of the Year	<u>337,944</u>	<u>292,673</u>	<u>109,969</u>
FUND BALANCE – End of the Year	<u>\$ 333,830</u>	<u>\$ 337,944</u>	<u>\$ 292,673</u>

See accompanying independent auditor's report.

		Percent of Total Revenues				
<u>2009</u>	<u>2008*</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008*</u>
\$ 415,987	\$ 272,455	96.4%	94.8%	93.1%	96.1%	97.2%
12,563	7,563	1.9	2.7	4.1	2.9	2.7
1,125	229	0.4	0.3	0.1	0.3	0.1
<u>3,368</u>	<u>7</u>	<u>1.3</u>	<u>2.2</u>	<u>2.7</u>	<u>.7</u>	<u>—</u>
<u>\$ 433,043</u>	<u>\$ 280,254</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 108,595	\$ 49,312	35.3%	47.0%	27.4%	25.1%	17.6%
48,970		3.1	.7	0.0	11.3	0.0
14,421		8.1	6.0	2.5	3.3	0.0
43,851	11,000	18.9	10.8	4.1	10.1	3.9
120,961	206,218	32.5	23.7	29.6	27.9	73.6
<u>—</u>	<u>—</u>	<u>3.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<u>\$ 336,798</u>	<u>\$ 266,530</u>	<u>100.9%</u>	<u>88.2%</u>	<u>63.6%</u>	<u>77.7%</u>	<u>95.1%</u>
\$ 96,245	\$ 13,724	<u>(0.9)%</u>	<u>11.8%</u>	<u>36.4%</u>	<u>22.3%</u>	<u>4.9%</u>
<u>13,724</u>	<u>—</u>					
<u>\$ 109,969</u>	<u>\$ 13,724</u>					

* First Year Audit

See accompanying independent auditor's report.

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

	<u>Amounts</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
REVENUES			
Assessment Revenues	\$ 880,710	\$ 852,642	\$
Penalty and Interest	11,806	20,258	
Investment Revenues	1,445	613	
Miscellaneous Revenues	<u>8,166</u>	<u>15,032</u>	
TOTAL REVENUES	<u>\$ 902,127</u>	<u>\$ 888,545</u>	<u>\$</u>
EXPENDITURES			
Service Operations:			
Security and Public Safety	\$ 321,034	\$ 226,280	\$
Mobility and Transportation	28,052	125,288	
Visual Improvements and Cultural	47,518	20,791	
Business Development	168,826	59,590	
Administrative Expenditures	239,165	274,831	
Creation and Petition Services	<u>27,809</u>		
TOTAL EXPENDITURES	<u>\$ 832,404</u>	<u>\$ 706,780</u>	<u>\$</u>
NET CHANGE IN FUND BALANCE	\$ 69,723	\$ 181,765	\$
FUND BALANCE – Beginning of the Year	<u>181,765</u>		
FUND BALANCE – End of the Year	<u>\$ 251,488</u>	<u>\$ 181,765</u>	<u>\$ N/A</u>

See accompanying independent auditor's report.

		Percent of Total Revenues				
<u>2009</u>	<u>2008</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$	\$	97.6%	96.0%			
		1.3	2.3			
		0.2	0.1			
		<u>0.9</u>	<u>1.6</u>			
<u>\$</u>	<u>\$</u>	<u>100.0%</u>	<u>100.0%</u>			
\$	\$	35.6%	25.5%			
		3.1	14.1			
		5.3	2.3			
		18.7	6.7			
		26.5	30.9			
		<u>3.1</u>	<u>0.0</u>			
<u>\$</u>	<u>\$</u>	<u>92.3%</u>	<u>79.5%</u>			
\$	\$	<u>7.7%</u>	<u>20.5%</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>					

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2012**

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, 2012	Expense reimbursements for the year ended December 31, 2012	Position
Claude Wynn	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	1 – Chairman
Dana Thorpe	04/12 06/13 (Appointed)	\$ -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
Lane Llewellyn	04/12 06/13 (Appointed)	\$ -0-	\$ -0-	5
Vacant				6
Vacant				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

See accompanying independent auditor's report.

**MONTROSE MANAGEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2012**

Board Members (Continued)	Term of Office (Appointed)	Fees of office for the year ended December 31, 2012	Expense reimbursements for the year ended December 31, 2012	Position
Bobby Heugel	04/12 06/13 (Appointed)	\$ -0-	\$ -0-	11
Brad Nagar	07/09 06/13 (Appointed)	\$ -0-	\$ -0-	12 – Assistant Secretary
Vacant				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.

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**MONTROSE MANAGEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2012**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2012</u>	<u>Title</u>
Vinson & Elkins First City Tower 1001 Fannin Street, Suite 2300 Houston, TX 77002	11/15/06	\$ 7,424	Prior Attorney
Bracewell & Giuliani 711 Louisiana Street, Suite 2300 Houston, TX 77002	03/01/13	\$ 27,134	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	02/18/09	\$ 7,000	Auditor
Equi-Tax Inc. 17111 Rolling Creek Drive, Suite 200 Houston, TX 77090	02/20/08	\$ 19,978	Assessment Collector and Database Management
Municipal Accounts and Consulting LP 1300 Post Oak Blvd., Suite 1600 Houston, TX 77056	08/20/08	\$ 20,942	Bookkeeper
Hawes Hill Calderon LLP 9610 Long Point Road, Suite 150 Houston, TX 77055	01/31/07	\$ 264,989	Administrator
Greater East End Management District 3211 Harrisburg Houston, TX 77003	07/16/08	\$ 69,320	Graffiti Abatement
Mark M. Burton PLLC 1300 Post Oak Blvd., Suite 1600 Houston, TX 77056	11/1/09	\$ 3,600	Annual Financial Report

See accompanying independent auditor's report.