

**MINUTES OF THE MEETING  
OF THE  
HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6  
(EAST MONTROSE MANAGEMENT DISTRICT)  
BOARD OF DIRECTORS**

**May 20, 2009**

**Determine quorum; call to order.**

The Board of Directors of Harris County Improvement District No. 6 held a regular meeting, open to the public, on the 20th day of May, 2009, at the Freed-Montrose Neighborhood Library, 4100 Montrose Blvd., Houston, Texas, at 3:00 p.m., inside the boundaries of the District, and Secretary Nagar called the meeting to order at 3:04 p.m. and the roll was called of the duly appointed members of the Board, to-wit:

Position 1: Kathy Hubbard	Position 7: Tammy Manning
Position 2: Claude Wynn	Position 8: Allen Ueckert
Position 3: Michael Grover, <i>Chairman</i>	Position 9: David Robinson
Position 4: Tom Fricke	Position 10: Randall Ellis, <i>Vice Chairman</i>
Position 5: Brad Nagar, <i>Secretary</i>	Position 11: Gary Wingfield
Position 6: Jerry Simoneaux	

and all of the above were present with the exception of Chairman Grover and Directors Ellis and Ueckert, thus constituting a quorum. Also present at the meeting were David Hawes and Josh Hawes, Hawes Hill Calderon; Pat Hall, Equi-Tax, Inc.; Joseph Ellis, McCall, Gibson, and Company, PLLC; Mark Burton and Teresa Rosenbaum, Municipal Accounts & Consulting, L.L.P.; Emily Todd, Menil Collection; and Christopher Brown, GLBT Community Center.

**Receive public comments.**

There were no public comments.

**Approve Oaths of Office, Sworn Statements and Bonds for new directors, Gary Wingfield and David Robinson.**

Mr. David Hawes announced that Mr. Wingfield and Mr. Robinson had both been officially appointed to serve as members of the Board of Directors. Upon a motion duly made by Director Manning and being seconded by Director Fricke, the Board voted unanimously to approve Oaths of Office, Sworn Statements and Bonds for new directors, Gary Wingfield and David Robinson.

**Approve of minutes of previous meeting.**

Upon a motion duly made by Director Wingfield and being seconded by Director Manning, the Board voted unanimously to approve the minutes of the March 18, 2009 Board meeting.

**Consider funds transfer authorization and agreement with Prosperity Bank; take appropriate action.**

Mr. David Hawes explained the need for the funds transfer authorization. Upon a motion duly made by Director Wingfield and being seconded by Director Robinson, the Board voted unanimously to approve a funds transfer authorization and agreement with Prosperity Bank.

**Receive Financial Report, pay bills.**

Ms. Teresa Rosenbaum briefed the Board and reviewed the financial information that was included in the Board packets. A question arose as to whether the Vinson & Elkins invoices included charges for current legislative work. Mr. David Hawes offered to investigate and provide clarification. Upon a motion duly made by Director Wingfield and being seconded by Director Manning, the Board voted unanimously to approve the financial report and pay bills.

**Receive Assessment Collection Report and Billing and Assessment Summary.**

Ms. Pat Hall briefed the Board and reported that the 2008 assessments are 86% collected to date. She noted that 2007 assessments are 97% collected. She added that Purdue Brandon has begun sending delinquent collection letters for the 2008 past due accounts. Upon a motion duly made by Director Hubbard and being seconded by Director Manning, the Board voted unanimously to accept the Assessment Collection Report and Billing and Assessment Summary.

**Receive draft of management letter and Annual Financial Report for Harris County Improvement District No. 6, December 31, 2008; take appropriate action**

Mr. Ellis presented a draft of the Annual Financial Report, December 31, 2008, hereby attached as Exhibit A, and management letter, hereby attached as Exhibit B. Mr. David Hawes briefly discussed the management letter. Upon a motion duly made by Director Wingfield and being seconded by Director Fricke, the Board voted unanimously to approve the draft of the management letter and the Annual Financial Report.



**Receive report and consider recommendations from Security and Public Safety Committee report with regard to the following:**

**Receive Public Safety Patrol Report for the month of May.**

Director Nagar reported on the Committee's activities. He said the Committee reviewed patrol reports and mapping at its most recent meeting and has requested that HPD make one change in personnel. He noted that the location of the District's security vehicle is being logged every two minutes. Mr. Josh Hawes added that the current patrol reports and maps are included in the Board packet and on the District's website. Upon a motion duly made by Director Robinson and being seconded by Director Fricke, the Board voted unanimously to accept the Security and Public Safety Committee Report.

**Receive report and consider recommendations from Visual Improvements and Cultural Promotion Committee with regard to the following:**

**Approve bid from Shooter and Lindsey, Inc for maintenance of Montrose Esplanades**

Director Fricke said that the committee recommends that the bid for maintenance of the Montrose esplanades be awarded to Shooter and Lindsey, Inc. He noted that the bid was the only one received, and that it was in an amount less than the firm's previous bids. Upon a motion duly made by Director Fricke and being seconded by Director Wynn, the Board voted unanimously to approve the bid from Shooter and Lindsey, Inc., for maintenance of the Montrose esplanades.

**Receive report on "Keep Montrose Clean and Green" campaign.**

Director Fricke reported that suggestions for the "Keep Montrose Clean and Green" Campaign are included in the Board packets. Mr David Hawes and Mr. Josh Hawes volunteered to present the Campaign concept at an upcoming Super Neighborhoods meeting. No action was taken.

**Receive report on District Esplanade program**

Mr. Josh Hawes reported that the District needs to develop an esplanade program and that more information will be forthcoming at future meetings. No action was taken.

**Receive report and consider recommendations from Business and Economic Development Committee with regard to the following:**

**Consider participation with other management districts in the Greater Houston Partnership.**

Mr. David Hawes explained that the proposal is for several management districts to pool resources to provide the funding necessary to join the Greater Houston Partnership. Membership benefits would include one seat on the GHP Board for Mr. David Hawes and the opportunity for all Board members to become active on GHP committees. Director Wynn said that it is important that the Montrose area gains visibility and leverage by joining the Partnership and that a priority would be for the Montrose area to be featured in external marketing of the City. Director Nagar asked if there is a discounted membership fee for government agencies, and Mr. David Hawes agreed to investigate. No action was taken.

**Consider participation with other management districts in the hiring of staff for the (re)development of the District websites and development of databases for electronic communication with constituents.**

Dr. David Hawes reported that several alternatives are under consideration and that a recommendation would be forthcoming. No action was taken.

**Consider partnership with the Museum District Business Alliance for database creation.**

Director Wingfield reported that a contract agreement with the Museum District Business Alliance has been reviewed by the District's legal counsel and is ready to be approved. Upon a motion duly made by Director Wingfield and being seconded by Director Wynn, the Board voted unanimously to approve the agreement and to form a partnership with the Museum District Business Alliance for database creation.

**Consider extensions for the logo design contest and branding survey.**

Mr. David Hawes said that the committee recommends extending the logo design contest and branding survey so more entries may be received. No action was taken.

**Receive recommendation from Transportation Committee with regard to the following:**

**Receive report on Transportation issues within the District.**

Director Wynn reported that the mobility inventory survey is commencing and that the goal is to finish it near the end of the year. He said that once the study is complete, the Board will establish and set priorities. No action was taken.



**Receive report with regard to creation of HCID #11 by the Legislature.**

Mr. David Hawes reported that the bill has been passed out of the State House of Representatives and that it is set for a public hearing in the State Senate on May 21, 2009. He said the bill is moving forward on schedule. No action was taken.

**Receive Executive Director's Monthly Report on Action Initiatives in Support of the District's Service Plan.**

Mr. David Hawes reported that he is now a member of the Board of Directors of Blueprint Houston and a member of the program committee. He said that he and Mr. Josh Hawes have been making presentations and holding meetings in the community that are going well. He also mentioned that several Board positions will be up for renewal. No action was taken.


**Other Business.**

Director Hubbard reported that a mural of mosaic tile panels is being installed on an outside wall of her office building. She said the artwork was commissioned as a project of Leadership Houston, Class #27. She invited all Board members and meeting attendees to attend the unveiling on June 9, 2009 at 11:00 a.m. No action was taken.

**Adjourn.**

There being no further business to come before the Board, Secretary Nagar adjourned the meeting at 4:46 p.m.



  
Secretary, Board of Directors

**Exhibits:**

Exhibit A: Draft of Annual Financial Report, dated December 31, 2008

Exhibit B: Draft of Management Letter, dated May 20, 2009

DRAFT SUBJECT TO CHANGE

*Exhibit A*

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2008**

**McCALL, GIBSON & COMPANY, PLLC**  
Certified Public Accountants



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**DRAFT SUBJECT TO CHANGE**

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2008**



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Board of Directors  
Harris County Improvement District No. 6  
Harris County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Improvement District No. 6 (the "District"), as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2008, and the respective changes in financial position for the inception period then ended in conformity with accounting principles generally accepted in the United States of America.



Board of Directors  
Harris County Improvement District No. 6

The Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund on page 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Improvement Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McCall, Gibson & Company, PLLC  
Certified Public Accountants

May 20, 2009

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

Our discussion and analysis of Harris County Improvement District No. 6's (the "District") financial performance provides an overview of the District's financial activities for the year ended December 31, 2008. Please read it in conjunction with the District's financial statements, which begin on page 8.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

The government-wide portion of the Statement of Activities on page 10 reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**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 one governmental fund type. The General Fund accounts for resources not accounted for in another fund, annual assessments 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 9 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 11 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 12 through 19 in this report.

**OTHER INFORMATION**

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

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**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 \$93,512 as of December 31, 2008.

With the first-year audit, the District is not presenting comparable prior-year columns in the various 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.

	<u>Summary of the Statement of Net Assets</u>
	<u>2008</u>
Current and Other Assets	\$ 508,173
Capital Assets (Net of Accumulated Depreciation)	<u>22,626</u>
Total Assets	<u>\$ 530,799</u>
Other Liabilities	\$ 52,246
Deferred Revenues	<u>385,041</u>
Total Liabilities	<u>\$ 437,287</u>
Net Assets:	
Invested in Capital Assets	\$ 22,626
Unrestricted	<u>70,886</u>
Total Net Assets	<u>\$ 93,512</u>

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

The following table provides a summary of the District's operations for the year ended December 31, 2008. The District's net assets increased by \$93,512.

	<u>Summary of the Statement of Activities</u>
	<u>2008</u>
Revenues:	
Property Assessments	\$ 329,617
Other Revenues	<u>7,799</u>
Total Assets	\$ 337,416
Expenses for Services	<u>243,904</u>
Change in Net Assets	\$ 93,512
Net Assets, Beginning of Year	<u>                    </u>
Net Assets, End of Year	<u>\$ 93,512</u>

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

The General Fund fund balance increased by \$13,724, due to assessment revenues exceeding current year expenditures.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenue was \$41,571 less than budgeted primarily due to less assessment revenue collected than anticipated. Actual expenditures were \$34,384 less than budgeted primarily due to expenditures budgeted but not occurring in the current fiscal year. See the budget to actual comparison on page 21.



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**CAPITAL ASSETS**

The District's investment in capital assets as of December 31, 2008, amounts to \$22,626. This investment in capital assets includes a vehicle and equipment.

Capital Assets At Year-End, Net of Accumulated Depreciation

Capital Assets Subject to Depreciation:	
Automobile and Equipment	\$ 22,626
Total Net Capital Assets	\$ 22,626

Additional information on the District's capital assets can be found in Note 5 on page 19 of this report.

**LONG-TERM DEBT ACTIVITY**

The District does not have any long-term debt as of December 31, 2008.

**CONTACTING THE DISTRICT'S FINANCIAL IMPROVEMENT**

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 Harris County Improvement District No. 6, P.O. Box 22167, Houston, TX, 77227-2167.

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2008**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash, Note 3	\$ 120,641	\$	\$ 120,641
Receivables:			
Assessments	387,532		387,532
Capital Assets (Net of Accumulated Depreciation), Note 5	<u>                    </u>	<u>22,626</u>	<u>22,626</u>
<b>TOTAL ASSETS</b>	<u>\$ 508,173</u>	<u>\$ 22,626</u>	<u>\$ 530,799</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 50,577	\$	\$ 50,577
Due to Others	1,669		1,669
Deferred Assessment Revenue	<u>442,203</u>	<u>(57,162)</u>	<u>385,041</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 494,449</u>	<u>\$ (57,162)</u>	<u>\$ 437,287</u>
<b>FUND BALANCES/NET ASSETS</b>			
<b>FUND BALANCES</b>			
Unreserved – Undesignated	<u>\$ 13,724</u>	<u>\$ (13,724)</u>	<u>\$ -0-</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 13,724</u>	<u>\$ (13,724)</u>	<u>\$ -0-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 508,173</u>		
<b>NET ASSETS</b>			
Invested in Capital Assets		\$ 22,626	\$ 22,626
Unrestricted		<u>70,886</u>	<u>70,886</u>
<b>TOTAL NET ASSETS</b>		<u>\$ 93,512</u>	<u>\$ 93,512</u>

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

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

Total Fund Balances - Governmental Funds \$ 13,724

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. 22,626

Deferred assessment revenues for the 2007 levy became part of recognized revenues in the governmental activities of the District. 57,162

Total Net Assets - Governmental Activities \$ 93,512

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



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Adjustments	Statement of Activities
<b>REVENUES</b>			
Assessment Revenues	\$ 272,455	\$ 57,162	\$ 329,617
Penalty and Interest	7,563		7,563
Investment Revenues	229		229
Miscellaneous Revenues	<u>7</u>	<u>          </u>	<u>7</u>
<b>TOTAL REVENUES</b>	<u>\$ 280,254</u>	<u>\$ 57,162</u>	<u>\$ 337,416</u>
<b>EXPENDITURES/EXPENSES</b>			
Service Operations:			
Security and Public Safety	\$ 49,312	\$ (24,581)	\$ 24,731
Business Development	11,000		11,000
Project Staffing and Administration	206,218		206,218
Depreciation, Note 5	<u>          </u>	<u>1,955</u>	<u>1,955</u>
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 266,530</u>	<u>\$ (22,626)</u>	<u>\$ 243,904</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 13,724	\$ (13,724)	\$
<b>CHANGE IN NET ASSETS</b>		93,512	93,512
<b>FUND BALANCE/NET ASSETS – JANUARY 1, 2008</b>	<u>          </u>	<u>          </u>	<u>          </u>
<b>FUND BALANCE/NET ASSETS – DECEMBER 31, 2008</b>	<u>\$ 13,724</u>	<u>\$ 79,788</u>	<u>\$ 93,512</u>

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

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6  
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, 2008**

Change in Fund Balances - Governmental Funds	\$ 13,724
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.	24,581
Governmental funds do not account for depreciation. However, in the Statement of Activities, capital assets are depreciated and depreciation expense is recorded.	(1,955)
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>57,162</u>
Change in Net Assets - Governmental Activities	<u>\$ 93,512</u>

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

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 1. CREATION OF DISTRICT**

The Harris County Improvement District No. 6, also known as the East Montrose Management District, (the "District") was created, effective June 17, 2005, by the Texas Legislature under provisions of House Bill No. 3518, of the 79<sup>th</sup> Legislature, Regular Session, 2005, codified as Chapter 3843, Texas Special District Local Laws Code (formerly Subchapter K, Chapter 376, Texas Local Government Code). Pursuant to the provisions of the Act creating the District, the District is 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. The Board of Directors held its first meeting on September 27, 2006.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Improvement Guide* published by the Commission.

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

**Financial Statement Presentation**

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



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

Financial Statement Presentation (Continued)

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted 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.

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**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 one major governmental fund.

General Fund - To account for resources not required to be accounted for in another fund, annual assessment revenues 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 sixty (60) days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Annual assessments considered available by the District and included in revenue include 2007 assessments collected during the period October 1, 2007 to December 31, 2008. The 2008 annual assessment has been fully deferred to meet the operating expenditures for the 2009 fiscal year.



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

Basis of Accounting (Continued)

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

Capital Assets

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

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

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

Budgeting

In compliance with governmental accounting principles, the District's board members should annually adopt an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that directors are considered to be employees for federal payroll tax purposes only.



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**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 are included on the Balance Sheet as follows:

Reserved:

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

Unreserved:

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

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

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.

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**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 District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$120,641 and the bank balance was \$143,624. The bank balance was fully covered by federal depository insurance.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at December 31, 2008, as listed below:

TOTAL DEPOSITS - GENERAL FUND	\$ <u>120,641</u>
-------------------------------	-------------------

Investments

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



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of December 31, 2008, the District had no investments.

**NOTE 4. ANNUAL ASSESSMENT**

In accordance with the Act creating the District, the District 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 District is 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 District. The order authorized levying an annual assessment which would assure sufficient funding for the services provided under the ten year term of the Service Plan. The order authorized an assessment of \$0.125 per \$100 valuation of taxable real property within the boundaries of the District.

For the 2008 tax year, the District levied an assessment of \$0.125 per \$100 of assessed valuation, which resulted in an assessment of \$385,041. The 2008 assessment has been fully deferred.



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 4. ANNUAL ASSESSMENT (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 5. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2008:

	<u>January 1, 2008</u>	<u>Additions</u>	<u>December 31, 2008</u>
<b>Capital Assets at Historical Costs Subject to Depreciation</b>			
Automobile and Equipment	\$ -0-	\$ 24,581	\$ 24,581
<b>Less Accumulated Depreciation</b>			
Automobile and Equipment	\$ -0-	\$ (1,955)	\$ (1,955)
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ -0-</u>	<u>\$ 22,626</u>	<u>\$ 22,626</u>

**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 for which the District carries commercial insurance. There have been no significant changes in coverage and there have been no settlements of claims exceeding coverage in the prior two years.

**DRAFT SUBJECT TO CHANGE**

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2008**

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Assessment Revenues	\$ 320,625	\$ 272,455	\$ (48,170)
Penalty and Interest		7,563	7,563
Investment Revenues	1,200	229	(971)
Miscellaneous Revenues		7	7
<b>TOTAL REVENUES</b>	<u>\$ 321,825</u>	<u>\$ 280,254</u>	<u>\$ (41,571)</u>
<b>EXPENDITURES</b>			
Service Operations			
Security and Public Safety	\$ 62,250	\$ 49,312	\$ 12,938
Transportation Planning	32,000		32,000
Business Development	49,500	11,000	38,500
Project Staffing and Administration	<u>157,164</u>	<u>206,218</u>	<u>(49,054)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 300,914</u>	<u>\$ 266,530</u>	<u>\$ 34,384</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 20,911	\$ 13,724	\$ (7,187)
<b>FUND BALANCE - JANUARY 1, 2008</b>			
<b>FUND BALANCE - DECEMBER 31, 2008</b>	<u>\$ 20,911</u>	<u>\$ 13,724</u>	<u>\$ (7,187)</u>

See accompanying independent auditor's report.



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**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**

**WATER DISTRICT FINANCIAL IMPROVEMENT GUIDE**

**DECEMBER 31, 2008**

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**PURCHASED SERVICES FOR RESALE:**

Security and Public Safety	\$ 49,312
Business Development	11,000
Project Staffing and Administration	<u>206,218</u>

<b>TOTAL EXPENDITURES</b>	<b><u>\$ 266,530</u></b>
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Number of persons employed by the District	<u>-0-</u>	Full-Time	<u>-0-</u>	Part-Time
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See accompanying independent auditor's report.

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**CHANGE IN ASSESSMENTS RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Assessments</u>	
ASSESSMENTS RECEIVABLE –		
JANUARY 31, 2008	\$	
Adjustments to Beginning Balance	<u>329,617</u>	\$ 329,617
Original 2008 Assessments Roll	\$ 385,041	
Adjustment to 2008 Assessments Roll	<u>                    </u>	<u>385,041</u>
TOTAL TO BE ACCOUNTED FOR		\$ 714,658
ASSESSMENT COLLECTIONS:		
Prior Year	\$ 272,455	
Current Year	<u>54,671</u>	<u>327,126</u>
ASSESSMENTS RECEIVABLE – December 31, 2008		<u>\$ 387,532</u>
ASSESSMENTS RECEIVABLE BY YEAR:		
2008		\$ 330,370
2007		<u>57,162</u>
		<u>\$ 387,532</u>

See accompanying independent auditor's report.



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND – THREE YEARS**

	<u>Amounts</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>			
Assessment Revenues	\$ 272,455	\$	\$
Penalty and Interest	7,563		
Investment Revenues	229		
Miscellaneous Revenues	<u>7</u>	<u></u>	<u></u>
<b>TOTAL REVENUES</b>	<u>\$ 280,254</u>	<u>\$</u>	<u>\$</u>
<b>EXPENDITURES</b>			
Service Operations:			
Security and Public Safety	\$ 49,312	\$	\$
Business Development	11,000		
Project Staffing and Administration	<u>206,218</u>	<u></u>	<u></u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 266,530</u>	<u>\$</u>	<u>\$</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 13,724	\$	\$
<b>BEGINNING FUND BALANCE</b>	<u></u>	<u></u>	<u></u>
<b>ENDING FUND BALANCE</b>	<u>\$ 13,724</u>	<u>\$ N/A</u>	<u>\$ N/A</u>

See accompanying independent auditor's report.

Percent of Total Revenues		
2008	2007	2006
97.2%		
2.7		
0.1		
<u>      </u>	<u>      </u>	<u>      </u>
<u>100.0%</u>	<u>      </u>	<u>      </u>
17.6%		
3.9		
<u>73.6</u>	<u>      </u>	<u>      </u>
<u>95.1%</u>	<u>      </u>	<u>      </u>
<u>4.9%</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**DECEMBER 31, 2008**

District Mailing Address - Harris County Improvement District No. 6  
 c/o East Montrose Management District  
 P.O. Box 22167  
 Houston, TX 77227-2167

District Telephone Number - (713) 595-1200

<b>Board Members</b>	<b>Term of Office (Appointed)</b>	<b>Fees of office for the year ended December 31, 2008</b>	<b>Expense reimbursements for the year ended December 31, 2008</b>	<b>Position</b>
Kathy Hubbard	09/06 06/09 (Appointed)	\$ -0-	\$ -0-	1
Claude Wynn	07/07 06/09 (Appointed)	\$ -0-	\$ -0-	2
Michael V. Grover-President	11/06 06/09 (Appointed)	\$ -0-	\$ -0-	3
Tom Fricke	09/06 06/09 (Appointed)	\$ -0-	\$ -0-	4
Brad Nagar-Secretary	11/06 06/09 (Appointed)	\$ -0-	\$ -0-	5
Jerry Simoneaux	09/06 06/09 (Appointed)	\$ -0-	\$ -0-	6
Tammy Manning	09/06 06/11 (Appointed)	\$ -0-	\$ -0-	7
Allen Ueckert	07/08 06/11 (Appointed)	\$ -0-	\$ -0-	8
Vacant				9
Randall Ellis-Vice President	11/06 06/11 (Appointed)	\$ -0-	\$ -0-	10
Vacant				11

See accompanying independent auditor's report.



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 6**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**DECEMBER 31, 2008**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2008</u>	<u>Title</u>
Vinson & Elkins First City Tower 1001 Fannin Street, Suite 2300 Houston, TX 77002	11/15/06	\$ 91,461	Attorney
McCall, Gibson & Company, PLLC Certified Public Accountants 13831 Northwest Freeway, Suite 610 Houston, TX 77040-5216	02/18/09	\$ -0-	Auditor
Equi-Tax Inc. 17111 Rolling Creek Drive, Suite 200 Houston, TX 77090	02/20/08	\$ 9,896	Assessment Collector and Database Management
Municipal Accounts and Consulting LP 1300 Post Oak Blvd., Suite 1600 Houston, TX 77056	08/20/08	\$ 1,494	Bookkeeper
Hawes Hill Calderon LLP 10103 Fondren Road, Suite 300 Houston, TX 77096	01/31/07	\$ 87,614	Administrator
Greater East End Management District 3211 Harrisburg Houston, TX 77003	07/16/08	\$ 16,640	Graffiti Abatement

See accompanying independent auditor's report.

Exhibit B

# McCALL, GIBSON & COMPANY, PLLC

Certified Public Accountants

13831 Northwest Frewy,  
Suite 610  
Houston, Texas 77040-5216  
(713) 462-0341  
Fax (713) 462-2708  
E-Mail: [mccallgibson@mccallgibson.com](mailto:mccallgibson@mccallgibson.com)

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7801 N. Capital of Texas Hwy.  
Suite 350  
Austin, Texas 78731-1169  
(512) 418-2358  
Fax: (512) 340-0604

May 20, 2009

Board of Directors  
Harris County Improvement District No. 6  
Harris County, Texas

In planning and performing our audit of the financial statements of Harris County Improvement District No. 6 (the "District") as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Statement of Auditing Standards No. 112 (SAS No. 112), effective for audits of financial statements for periods ending on or after December 15, 2006 with earlier implementation permitted, set about to identify and define deficiencies in internal control that might be significant deficiencies or material weaknesses. SAS No. 112 requires that significant deficiencies or material weaknesses be communicated to management in writing.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the District's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal controls.



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A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the District's financial statements will not be prevented or detected by the District's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses.

**Material Weaknesses**

The District's management consists of an appointed Board of Directors ("Directors"). Day-to-day operations are performed by private companies ("Consultants") under contract with the District. The Directors supervise the performance of the Consultants; however, although the Consultants can be part of the District's system of internal control, the Consultants are not members of management. Ultimately, the Directors are responsible for design and implementation of the system of internal control.

As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness of the District's system of internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements on the government-wide basis of accounting. Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control. In addition, the District's Management relies on the District's auditor to prepare the capital asset and depreciation schedules and post adjustments related to the presentation of the capital assets in the government-wide financial statements. This reliance on the auditor to perform this function is considered to be a material weakness in the system of internal control. SAS No. 112 does not make exceptions for reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of SAS No. 112 to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the control deficiencies above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor. Stated another way, if an organization is unable to issue, without the auditors' involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a significant deficiency in the system of internal control.



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**Significant Deficiencies**

No matters reportable.

**Control Deficiencies**

No matters reportable.

**Management's Response**

The District's Board of Directors is appointed from the general population and do not necessarily have governmental accounting expertise. The Board engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal services. Based on the auditor's unqualified opinion and after reading the financial statements, the Board believes the financial statements are materially correct. The Board does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

**Conclusion**

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

**DRAFT**  
**SUBJECT TO CHANGE**

McCall, Gibson & Company, PLLC  
Certified Public Accountants