

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2017

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	7-8
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	9
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	10-11
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	12
NOTES TO THE FINANCIAL STATEMENTS	13-24
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	26
SUPPLEMENTARY INFORMATION – REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	28-30
GENERAL FUND EXPENDITURES	31
INVESTMENTS	32
TAXES LEVIED AND RECEIVABLE	33-34
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND-TWO YEARS	35-36
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	37-38

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

Board of Directors
Conroe Municipal Management District No. 1
Montgomery County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Conroe Municipal Management District No. 1 (the "District"), as of and for the year ended July 31, 2017, 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 from 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 entity'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.

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 July 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund 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.

Other 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

November 15, 2017

**CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2017**

Management's discussion and analysis of Conroe Municipal Management District No. 1's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended July 31, 2017. Please read it in conjunction with the District's financial statements.

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 Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and 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. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources, 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 reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for property tax revenues as well as operating and administrative costs. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of District facilities and related costs.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2017

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 adjustment columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities 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.

OTHER INFORMATION

In addition to the 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$1,560,327 as of July 31, 2017.

The following is a comparative analysis of the Statement of Net Position as of July 31, 2017, and July 31, 2016:

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 84,707	\$ 85,270	\$ (563)
Intangible Asset (Net of Accumulated Amortization)	22,165,228	10,211,247	11,953,981
Capital Assets (Net of Accumulated Depreciation)	337,810	351,171	(13,361)
Total Assets	\$ 22,587,745	\$ 10,647,688	\$ 11,940,057
Due to Developer	\$ 21,291,561	\$ 11,153,814	\$ (10,137,747)
Other Liabilities	2,856,511	61,221	(2,795,290)
Total Liabilities	\$ 24,148,072	\$ 11,215,035	\$ (12,933,037)
Net Position:			
Net Investment in Capital Assets	\$ (806,176)	\$ (81,396)	\$ (724,780)
Unrestricted	(754,151)	(485,951)	(268,200)
Total Net Position	\$ (1,560,327)	\$ (567,347)	\$ (992,980)

*

The following table provides a summary of the District's operations for the years ending July 31, 2017, and July 31, 2016.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 119,867	\$ 71,279	\$ 48,588
Other Revenues	250	7	243
Total Revenues	\$ 120,117	\$ 71,286	\$ 48,831
Expenses for Services	1,113,097	10,810,101	9,697,004
Change in Net Position	\$ (992,980)	\$ (10,738,815)	\$ 9,745,835
Net Position, Beginning of Year	(567,347)	10,171,468	(10,738,815)
Net Position, End of Year	\$ (1,560,327)	\$ (567,347)	\$ (992,980)

*

* As adjusted, see Note 17.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The District's combined fund balances as of July 31, 2017 were \$ (2,771,804), a decrease of \$2,795,853 from the prior year.

The General Fund fund balance increased by \$31,800, primarily due to developer advances received by the District.

The District's Capital Projects Fund was created during the current fiscal year and had a deficit fund balance at year-end of \$2,827,653 due to the issuance of the Series 2017 Bond Anticipation Note.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$3,105 more than budgeted revenues. Actual expenditures were \$137,695 less than budgeted expenditures, due to lower than anticipated costs across all expenditure categories.

CAPITAL AND INTANGIBLE ASSETS

As of the end of the current fiscal year, the District had \$337,810 of stormwater detention facilities, net of accumulated depreciation. Per the Utility Functions Agreement with the City of Conroe, water, wastewater, drainage and road facilities constructed by the District are to be conveyed to the City, and stormwater detention, floodplain reclamation and recreational facilities constructed are to remain assets of the District. The District has recognized an intangible asset for the cost of the facilities conveyed to the City which has a July 31, 2017 balance of \$22,165,228, net of accumulated amortization.

LONG TERM DEBT ACTIVITY

The District has no long term debt as of July 31, 2017, but does have developer liabilities for the construction of facilities and operating advances, as well as an outstanding Bond Anticipation Note. See Notes 5 and 14, respectively.

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 Conroe Municipal Management District No. 1, c/o The Muller Law Group, PLLC, 16555 Southwest Freeway, Suite 200, Sugar Land, TX 77479.

THIS PAGE INTENTIONALLY LEFT BLANK

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2017

	General Fund	Capital Projects Fund
ASSETS		
Cash	\$ 80,188	\$
Investments		4,519
Intangible Asset - Right to Receive Service Net of Accumulated Amortization)		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 80,188	\$ 4,519
LIABILITIES		
Accounts Payable	\$ 24,339	\$
Accrued Interest Payable		22,172
Due to Developer		
Bond Anticipation Note Payable		2,810,000
TOTAL LIABILITIES	\$ 24,339	\$ 2,832,172
FUND BALANCES		
Restricted for Authorized Construction	\$	\$ (2,827,653)
Unassigned	55,849	
TOTAL FUND BALANCES	\$ 55,849	\$ (2,827,653)
TOTAL LIABILITIES AND FUND BALANCES	\$ 80,188	\$ 4,519
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>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 80,188 4,519	\$	\$ 80,188 4,519
	22,165,228	22,165,228
	<u>337,810</u>	<u>337,810</u>
<u>\$ 84,707</u>	<u>\$ 22,503,038</u>	<u>\$ 22,587,745</u>
\$ 24,339 22,172	\$	\$ 24,339 22,172
	21,291,561	21,291,561
<u>2,810,000</u>		<u>2,810,000</u>
<u>\$ 2,856,511</u>	<u>\$ 21,291,561</u>	<u>\$ 24,148,072</u>
\$ (2,827,653) 55,849	\$ 2,827,653 (55,849)	\$
<u>\$ (2,771,804)</u>	<u>\$ 2,771,804</u>	<u>\$ -0-</u>
<u>\$ 84,707</u>		
	\$ (806,176)	\$ (806,176)
	<u>(754,151)</u>	<u>(754,151)</u>
	<u>\$ (1,560,327)</u>	<u>\$ (1,560,327)</u>

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

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JULY 31, 2017

Total Fund Balances - Governmental Funds \$ (2,771,804)

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital and intangible assets and in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 22,503,038

Developer liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (21,291,561)

Total Net Position - Governmental Activities \$ (1,560,327)

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

THIS PAGE INTENTIONALLY LEFT BLANK

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>
REVENUES		
Property Taxes	\$ 119,867	\$
Investment Revenues	15	12
Miscellaneous Revenues	<u>223</u>	<u></u>
TOTAL REVENUES	<u>\$ 120,105</u>	<u>\$ 12</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 338,630	\$ 57,391
Contracted Services	37,080	
Amortization		
Depreciation		
Other	12,595	
Capital Outlay		2,669,910
Debt Service:		
Bond Anticipation Note Interest		22,175
Bond Anticipation Note Issuance Costs		<u>78,189</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 388,305</u>	<u>\$ 2,827,665</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (268,200)</u>	<u>\$ (2,827,653)</u>
OTHER FINANCING SOURCES (USES)		
Developer Advances	<u>\$ 300,000</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCES	\$ 31,800	\$ (2,827,653)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - AUGUST 1, 2016, AS ADJUSTED	<u>24,049</u>	<u></u>
FUND BALANCES (DEFICIT)/NET POSITION - JULY 31, 2017	<u>\$ 55,849</u>	<u>\$ (2,827,653)</u>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 119,867		\$ 119,867
27		27
<u>223</u>		<u>223</u>
<u>\$ 120,117</u>	<u>\$ - 0 -</u>	<u>\$ 120,117</u>
\$ 396,021	\$	\$ 396,021
37,080		37,080
	559,319	559,319
	7,718	7,718
12,595		12,595
2,669,910	(2,669,910)	
22,175		22,175
<u>78,189</u>		<u>78,189</u>
<u>\$ 3,215,970</u>	<u>\$ (2,102,873)</u>	<u>\$ 1,113,097</u>
<u>\$ (3,095,853)</u>	<u>\$ 2,102,873</u>	<u>\$ (992,980)</u>
<u>\$ 300,000</u>	<u>\$ (300,000)</u>	<u>\$ -0-</u>
\$ (2,795,853)	\$ 2,795,853	\$
	(992,980)	(992,980)
<u>24,049</u>	<u>(591,396)</u>	<u>(567,347)</u>
<u>\$ (2,771,804)</u>	<u>\$ 1,211,477</u>	<u>\$ (1,560,327)</u>

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

**CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2017**

Net Change in Fund Balances - Governmental Funds	\$ (2,795,853)
--	----------------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds do not account for depreciation and amortization. However, in the Statement of Net Position, capital and intangible assets are depreciated and amortized and expense is recorded in the Statement of Activities.	(567,037)
---	-----------

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets and intangible assets are increased by new purchases and the Statement of Activities is not affected.	2,669,910
---	-----------

Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances are recorded as a liability.	<u>(300,000)</u>
---	------------------

Change in Net Position - Governmental Activities	<u>\$ (992,980)</u>
--	---------------------

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

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 1. CREATION OF DISTRICT

Conroe Municipal Management District No. 1 (the “District”) was created effective April 21, 2015, by an Order of the Texas Commission on Environmental Quality (the “Commission”). The District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer, storm sewer drainage, irrigation, and to construct roads as well as parks and recreational facilities for the residents of the District. The Board of Directors held its organizational meeting on April 23, 2015.

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 Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

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.

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position 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.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- 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.

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 Balance.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Governmental Fund

The District has two governmental funds and considers each to be major funds.

General Fund - To account for property tax revenues, as well as operating and administrative costs.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of District facilities and related costs.

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 collectable 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 collectable 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.

Capital Assets

Capital assets, which may include property, plant, equipment, and infrastructure assets, 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 Assets 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
Drainage System	10-45
All Other Equipment	3-20

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that the directors are considered to be “employees” for federal payroll tax purposes only.

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 appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds 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. The District does not have any nonspendable fund balances.

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.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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. The District does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

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 \$80,188 and the bank balance was \$83,799. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at July 31, 2017, as listed below:

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

	Cash
DEPOSITS - GENERAL FUND	\$ 80,188

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers’ acceptances with limitations, (10) 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.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District also measures its investment in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

As of August 31, 2017, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>CAPITAL PROJECTS FUND</u>		
TexPool	4,519	4,519

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2017, the District's investment in TexPool was rated AAAM by Standard and Poor's.

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

Restrictions

All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 4. MAINTENANCE TAX

On November 3, 2015, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's facilities as well as any other lawfully authorized purpose. During the year ended July 31, 2017, the District levied an ad valorem maintenance tax rate of \$0.90 per \$100 of assessed valuation which resulted in tax levy of \$119,867 on the adjusted taxable valuation of \$13,318,610 for the 2016 tax year.

On November 3, 2015, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable within the District to be used to pay construction and maintenance expenditures related to road facilities. As of the end of the current fiscal year, the District has not yet levied this particular tax.

The District's tax calendar is as follows:

Levy Date	- October 1, or as soon thereafter 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. DUE TO DEVELOPER

The District has executed an agreement for the construction of improvements and reimbursement of advances with a Developer within the District. The agreement calls for the Developer to fund costs associated with water, wastewater, drainage and road facilities and operating advances until such time as the District can sell bonds. As reflected in the Statement of Net Position, \$810,000 has been recorded as a liability for operating advances. As of July 31, 2017, the Developer has indicated that approximately \$20,481,561 had been expended on behalf of the District in accordance with the agreement on completed projects. These liabilities have been recorded in the Statement of Net Position for these projects and reimbursement is contingent upon approval from the Commission and the future sale of bonds.

NOTE 6. CAPITAL AND INTANGIBLE ASSETS

As of the end of the current fiscal year, the District had \$337,810 of stormwater detention facilities, net of accumulated depreciation of \$13,830. Current year depreciation was \$7,718. Water, wastewater, drainage and road facilities constructed in the amount of \$22,799,831 have been conveyed to the City of Conroe for operation and maintenance. The District has recognized an intangible asset for the cost of assets conveyed to the City which totaled \$22,165,228, net of accumulated amortization of \$634,603, as of July 31, 2017. Current year amortization was \$559,319.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 7. LONG TERM DEBT AUTHORIZATION

In accordance with an election held November 3, 2015, the District has authorized but unissued utility bonds totaling \$250,800,000, authorized but unissued road bonds totaling \$187,550,000, and authorized but unissued recreational facilities bonds totaling \$29,700,000.

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters from which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage since inception of the District.

NOTE 9. UTILITY FUNCTIONS AGREEMENT

On October 24, 2013, CS Texas Holdings LP, (the “Developer”) acting on behalf of the District entered into the Utility Functions Agreement with the City of Conroe (the “City”). The Agreement was assigned to the District by the Developer on April 23, 2015. Pursuant to this Agreement, the City consented to the creation of the District within its city limits. The District is responsible for acquiring and constructing for the benefit of, and for ultimate conveyance to, the City, the water distribution, wastewater collection, drainage and road facilities (the “Facilities”) to serve development within the District. The City has agreed to accept the Facilities for operation and maintenance in consideration for the District’s financing, acquisition and construction of the Facilities. The City agrees to charge residents of the District the same water and wastewater rates that the City charges in other parts of the City.

The Agreement provides that the Facilities shall be designed and constructed in accordance with the City’s requirements. The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity without charging the District any type of capital charge. In accordance with the Agreement, the District is authorized to issue bonds for the purpose of financing the construction and acquisition of the Facilities.

The Agreement provides that the City will pay an annual rebate to the District. The annual rebate, which is waived by the District during the period under which the City makes payments to the District under the Reimbursement Agreement and Economic Development Agreement (see Note 10), is equal to the total assessed value in the District for the given year multiplied by the portion of the City’s tax rate that is attributable to water, sewer and drainage facilities.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 9. UTILITY FUNCTIONS AGREEMENT (Continued)

The term of the Agreement is the earlier of the dissolution of the District by the City or 40 years. The City's right to dissolve the District is restricted per the Agreement. Under the terms of the Agreement, the City agrees that it will not dissolve the District until certain conditions have been met, including (i) 90% of the District's facilities have been developed and (ii) the Developers have been reimbursed for advancing funds to construct the Facilities to the maximum extent permitted by the rules of the Commission or the City assumes any obligations for such payment by the District under such rules.

NOTE 10. REIMBURSEMENT AND ECONOMIC DEVELOPMENT AGREEMENTS WITH THE CITY OF CONROE

On October 24, 2013, the Developer entered into separate Reimbursement and Economic Development Agreements with the City. The Agreements were assigned to the District on April 23, 2015.

The Reimbursement Agreement calls for the City to reimburse the District a maximum of \$10,000,000 plus interest for expenses related to floodplain streambed reclamation and mitigation, wetland reclamation and mitigation, recreational facilities and design, testing, construction and costs to obtain permits necessary to serve residential property within the District.

The Economic Development Agreement calls for the City to reimburse the District a maximum of \$10,000,000 plus interest for the expenses related to floodplain and streambed and mitigation, wetlands reclamation and mitigation and design, testing, surveying, construction and costs to obtain permits necessary to serve non-residential property within the District.

Both agreements call for an annual calculation of District credits based on increased ad valorem tax revenue received by the City as a result of growth in the District's taxable value and specify the dates and methodology by which the District credits are to be calculated and when they are to be paid. No amounts have yet been paid by the City to the District per these Agreements as of the end of the current year.

NOTE 11. ROAD AND PUBLIC IMPROVEMENTS AGREEMENT WITH MONTGOMERY COUNTY

On November 13, 2013, the Developer entered into an Agreement with Montgomery County (the "County"). The Agreement was assigned to the District on April 23, 2015. It calls for the County to reimburse the District a maximum of \$20,000,000 for roads and public improvements, including related drainage and storm sewer facilities.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 11. ROAD AND PUBLIC IMPROVEMENTS AGREEMENT WITH MONTGOMERY COUNTY (Continued)

The Agreement specifies the methodology by which annual payments, which are based on the District's taxable values, are to be calculated and additionally authorizes the District to issue bonds supported by these payments. No payments per this Agreement have yet been paid by the County to the District as of the end of the current fiscal year.

NOTE 12. INTERLOCAL AGREEMENT WITH THE CITY OF CONROE

Effective June 10, 2015, the District entered into an Interlocal Agreement with the City for the design, permitting and construction of regional road improvements and other improvements including drainage and landscaping necessary to serve property within the City and the District.

The Agreement authorizes the City to manage the construction projects and for the District to monitor and approve periodic payments related to such projects. Upon completion of the applicable facilities, the City shall submit a final accounting of all projects and the District shall remit any remaining payment to or receive any refund from the City within 60 days of its receipt of the final accounting. Notwithstanding the foregoing, the District shall not be obligated to reimburse the City for overhead administrative costs.

NOTE 13. ECONOMIC DEPENDENCY

The District's Developer owns a substantial portion of the taxable property within the District. In addition, the District could be dependent upon the Developer for operating advances to meet its financial obligations. The Developer's ability to make full and timely payments of taxes and operating advances could directly affect the District's ability to meet its financial obligations.

NOTE 14. SALE OF BOND ANTICIPATION NOTE

On April 26, 2017, the District closed on the sale of its \$2,810,000 Series 2017 Bond Anticipation Note (BAN). Proceeds from the BAN sale were used to reimburse the Developer for a portion of the costs associated with construction and engineering for water, wastewater and drainage facilities to serve Grand Central Parkway, Crescent Campus Boulevard, Urban Avenue and Town Park Drive; clearing and grubbing; stormwater channel excavation, phase 1; master drainage plan costs; geotechnical fees; stormwater pollution plan fees; and to pay for issuance costs of the BAN.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2017

NOTE 15. PENDING BOND SALE

On November 10, 2017, the Commission approved the District's application to issue \$5,500,000 of bonds. The transaction is expected to close on February 21, 2018.

NOTE 16. DEFICIT FUND BALANCE – CAPITAL PROJECTS FUND

The Capital Projects Fund has a deficit fund balance of \$2,827,653 as of July 31, 2017, which is due to the issuance of the Series 2017 BAN (see Note 14). This deficit is projected to be eliminated upon the issuance of bonds.

NOTE 17. PRIOR PERIOD ADJUSTMENT

In the previous fiscal year, the District recognized conveyance of water, wastewater, drainage and road facilities as expenses in the Statement of Activities. However, pursuant to the Utility Functions Agreement with the City of Conroe, these facilities have been conveyed to the City in exchange for the District's right to receive water, wastewater, drainage and road services. In accordance with current governmental accounting standards, this results in an intangible asset which is to be amortized over the term of the agreement.

Net Position - August 1, 2016	\$ (10,778,594)
Effect of Adjustment	<u>10,211,247</u>
Net Position - August 1, 2016, As Adjusted	<u><u>\$ (567,347)</u></u>

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2017

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR YEAR ENDED JULY 31, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 117,000	\$ 119,867	\$ 2,867
Investment Revenues		15	15
Miscellaneous Revenues		<u>223</u>	<u>223</u>
TOTAL REVENUES	<u>\$ 117,000</u>	<u>\$ 120,105</u>	<u>\$ 3,105</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 447,000	\$ 338,630	\$ 108,370
Contracted Services	45,000	37,080	7,920
Other	<u>34,000</u>	<u>12,595</u>	<u>21,405</u>
TOTAL EXPENDITURES	<u>\$ 526,000</u>	<u>\$ 388,305</u>	<u>\$ 137,695</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (409,000)</u>	<u>\$ (268,200)</u>	<u>\$ 140,800</u>
OTHER FINANCING SOURCES(USES)			
Developer Advances	<u>\$ 410,000</u>	<u>\$ 300,000</u>	<u>\$ (110,000)</u>
NET CHANGE IN FUND BALANCE	\$ 1,000	\$ 31,800	\$ 30,800
FUND BALANCE - AUGUST 1, 2016	<u>24,049</u>	<u>24,049</u>	
FUND BALANCE - JULY 31, 2017	<u>\$ 25,049</u>	<u>\$ 55,849</u>	<u>\$ 30,800</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

JULY 31, 2017

**CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2017**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u>N/A</u>	Retail Water	<u>N/A</u>	Wholesale Water	<u>X</u>	Drainage
<u>N/A</u>	Retail Wastewater	<u>N/A</u>	Wholesale Wastewater	<u>N/A</u>	Irrigation
<u>N/A</u>	Parks/Recreation	<u>N/A</u>	Fire Protection	<u>N/A</u>	Security
<u>N/A</u>	Solid Waste/Garbage	<u>N/A</u>	Flood Control	<u>N/A</u>	Roads
<u>N/A</u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u>N/A</u>	Other (specify): _____				

The District receives retail water and wastewater services from the City of Conroe (the "City"). In this arrangement certain water and wastewater facilities constructed by the District will be conveyed to the City. The City will maintain the facilities and operate the facilities for the benefit of the residents of the District. Therefore, the District will not be responsible for operation of the utilities within its boundaries.

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order approved N/A .

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	N/A				
WASTEWATER:	N/A				
SURCHARGE:	N/A				

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$N/A Wastewater: \$N/A Surcharge: \$N/A

See accompanying independent auditor's report.

**CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2017**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered			x 1.0	
$\leq 3/4"$			x 1.0	
1"			x 2.5	
1 1/2"			x 5.0	
2"			x 8.0	
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	N/A	N/A		
Total Wastewater Connections	N/A	N/A	x 1.0	

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped: N/A Water Accountability Ratio: N/A
 (Gallons billed and sold/Gallons pumped and purchased)

Gallons billed to customers: N/A

See accompanying independent auditor's report.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2017

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes ___ No X

Does the District have Operation and Maintenance standby fees? Yes ___ No X

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely X Partly _____ Not at all _____

City in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes X No _____

By City of Conroe, Texas

See accompanying independent auditor's report.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2017

PROFESSIONAL FEES:	
Auditing	\$ 6,200
Engineering	\$ 49,588
Legal	<u>282,842</u>
TOTAL PROFESSIONAL FEES	<u>\$ 338,630</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 500
Bookkeeping	33,880
Tax Collector	<u>2,700</u>
TOTAL CONTRACTED SERVICES	<u>\$ 37,080</u>
ADMINISTRATIVE EXPENDITURES:	
Insurance	\$ 5,596
Office Supplies and Postage	6,989
Other	<u>10</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 12,595</u>
TOTAL EXPENDITURES	<u><u>\$ 388,305</u></u>

See accompanying independent auditor's report.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
INVESTMENTS
FOR THE YEAR ENDED JULY 31, 2017

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0001	Varies	Daily	<u>\$ 4,519</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2017

	Maintenance Taxes	
TAXES RECEIVABLE -		
AUGUST 1, 2016	\$ -0-	
Adjustments to Beginning		
Balance		\$ -0-
Original 2016 Tax Levy	\$ 119,867	
Adjustment to 2016 Tax Levy		119,867
TOTAL TO BE		
ACCOUNTED FOR		\$ 119,867
TAX COLLECTIONS:		
Prior Years	\$	
Current Year	119,867	119,867
TAXES RECEIVABLE -		
JULY 31, 2017		\$ -0-

See accompanying independent auditor's report.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2017

	2016	2015
PROPERTY VALUATIONS:		
Land	\$ 30,547,000	\$ 27,865,790
Improvements	201,160	200,010
Personal Property	94	
Exemptions	(17,429,644)	(20,145,900)
TOTAL PROPERTY		
VALUATIONS	\$ 13,318,610	\$ 7,919,900
 TAX RATES PER \$100		
VALUATION:		
Maintenance	\$ 0.90	\$ 0.90
 ADJUSTED TAX LEVY*	 \$ 119,867	 \$ 71,279
 PERCENTAGE OF TAXES		
COLLECTED TO TAXES		
LEVIED	100.00 %	100.00 %

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – A tax not to exceed \$1.00 per \$100 of assessed valuation approved by voters on November 3, 2015.

See accompanying independent auditor's report.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - TWO YEARS

	Amounts	
	2017	2016*
REVENUES		
Property Taxes	\$ 119,867	\$ 71,279
Investment Revenues	15	7
Miscellaneous Revenues	223	
TOTAL REVENUES	\$ 120,105	\$ 71,286
EXPENDITURES		
Professional Fees	\$ 338,630	\$ 453,876
Contracted Services	37,080	45,191
Other	12,595	18,391
TOTAL EXPENDITURES	\$ 388,305	\$ 517,458
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (268,200)	\$ (446,172)
OTHER FINANCING SOURCES (USES)		
Developer Advances	\$ 300,000	\$ 370,000
NET CHANGE IN FUND BALANCE	\$ 31,800	\$ (76,172)
BEGINNING FUND BALANCE	24,049	100,221
ENDING FUND BALANCE	\$ 55,849	\$ 24,049
TOTAL ACTIVE RETAIL WATER CONNECTIONS	N/A	N/A
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	N/A	N/A

* First year audit

See accompanying independent auditor's report.

Percentage of Total Revenues	
<u>2017</u>	<u>2016*</u>
99.8 %	100.0 %
<u>0.2</u>	<u> </u>
<u>100.0 %</u>	<u>100.0</u>
281.9 %	636.7 %
30.9	63.4
<u>10.5</u>	<u>25.8</u>
<u>323.3 %</u>	<u>725.9 %</u>
<u>(223.3) %</u>	<u>(625.9) %</u>

See accompanying independent auditor's report.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2017

District Mailing Address - Conroe Municipal Management District No. 1
c/o The Muller Law Group, PLLC
16555 Southwest Freeway, Suite 200
Sugar Land, TX 77479

District Telephone Number - (281) 500-6050

Board Members	Term of Office (Elected or <u>Appointed</u>)	Expense Reimbursements for year ended <u>July 31, 2017</u>	<u>Title</u>
Chris Denison	04/15 04/19 (Appointed)	\$ -0-	President
Hank Kulesza	04/17 04/21 (Appointed)	\$ -0-	Vice President
Charlie Reinhardt	04/15 04/19 (Appointed)	\$ -0-	Secretary
Dennis Bailey	04/17 04/21 (Appointed)	\$ -0-	Assistant Secretary
Steve Hailey	04/15 04/19 (Appointed)	\$ -0-	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
April 6, 2017.

See accompanying independent auditor's report.

CONROE MUNICIPAL MANAGEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2017

Consultants:	Date Hired	Fees for the year ended July 31, 2017	Title
The Muller Law Group, PLLC	04/23/15	\$ 139,717 \$ 40,000	General Counsel Bond Related
McCall Gibson Swedlund Barfoot PLLC	07/20/16	\$ 6,200 \$ 7,500	Auditor Bond Related
AVANTA Services	05/20/15	\$ 37,439	Bookkeeper
LJA Engineering, Inc.	04/23/15	\$ 49,588	Engineer
Robert W. Baird & Co. Incorporated	04/23/15	\$ 28,100	Financial Advisor
Assessments of the Southwest, Inc.	04/23/15	\$ 2,820	Tax Assessor/ Collector

See accompanying independent auditor's report.

