
AUDIT REPORT

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

MONTGOMERY COUNTY, TEXAS

DECEMBER 31, 2011

CONTENTS

INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	Page 1
--	--------

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS GOVERNMENTAL FUNDS	Page 2
---	--------

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE	Page 3
--	--------

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS	Page 4
---	--------

NOTES TO FINANCIAL STATEMENTS INCLUDING NOTES REQUIRED BY TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	Pages 5-17
---	------------

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	Page 18
--	---------

TEXAS SUPPLEMENTARY INFORMATION

SERVICES AND RATES.....	Pages 19-19b
-------------------------	--------------

SCHEDULE OF GENERAL FUND EXPENDITURES	Page 20
---	---------

SCHEDULE OF TEMPORARY INVESTMENTS	Page 21
---	---------

TAXES LEVIED AND RECEIVABLE	Pages 22-22a
-----------------------------------	--------------

GENERAL LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS	Pages 23-23b
--	--------------

ANALYSIS OF CHANGES IN GENERAL LONG-TERM DEBT	Page 24
---	---------

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS	Page 25
---	---------

BOARD MEMBERS, KEY ADMINISTRATIVE PERSONNEL AND CONSULTANTS	Pages 26-26a
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March 22, 2012

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Utility District No. 4
Montgomery County, Texas

We have audited the financial statements of the governmental activities, the General Fund, the Debt Service Fund, the Capital Projects Fund and remaining fund information, which collectively comprise the basic financial statements, of the Montgomery County Utility District No. 4, Montgomery County, Texas, as of and for the eighteen months ended December 31, 2011, as listed in the 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the General Fund, the Debt Service Fund, the Capital Projects Fund and remaining fund information of the District at December 31, 2011, and the changes in financial position of those activities and funds for the eighteen months then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and budgetary comparison information is not a required part of the basic financial statements, but supplementary information required by the 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 an opinion on the District's basic financial statements. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and is required by the Texas Commission on Environmental Quality and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us 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.

DAVID L. MERRITT, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Within this section of the Montgomery County Utility District No. 4 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the eighteen months ended December 31, 2011.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) Government-Wide Financial Statements; 2) Fund Financial Statements, and 3) Notes to Financial Statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality.

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer, and drainage services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net assets and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net assets is to attempt to report all of the assets owned by and liabilities of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as net assets and this difference is similar to the total owner's equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net assets.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Fund financial statements consist of a balance sheet and statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land utility systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is a reconciliation that reconciles the total fund balances to the amount of net assets presented in the governmental activities column on the statement of net assets. Also, there is a reconciliation that reconciles the total change in fund balances for all governmental funds to the change in net assets as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Financial Analysis of the District as a Whole

The District's overall financial position and operations for the past 18 months is summarized as follows based on the information included in the government-wide financial statements.

Summary of Net Assets

	<u>December 31,</u>	<u>June 30,</u>
	<u>2011</u>	<u>2010</u>
<i>Current and other assets</i>	\$ 10,563,125	\$ 3,519,419
<i>Capital assets</i>	<u>4,054,799</u>	<u>3,068,451</u>
<i>Total assets</i>	<u>14,617,924</u>	<u>6,587,870</u>
 <i>Long-term liabilities</i>	 6,550,000	 1,565,000
<i>Other liabilities</i>	<u>409,390</u>	<u>224,839</u>
<i>Total liabilities</i>	<u>6,959,390</u>	<u>1,789,839</u>
 <i>Net assets:</i>		
<i>Invested in capital assets, net of related debt</i>	1,849,080	1,503,451
<i>Restricted</i>	1,990,739	205,237
<i>Unrestricted</i>	<u>3,818,715</u>	<u>3,089,343</u>
<i>Total net assets</i>	<u>\$ 7,658,534</u>	<u>\$ 4,798,031</u>

The total net assets of the District increased by \$2,860,503. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Assets

	<u>December 31,</u>	<u>June 30,</u>
	<u>2011</u>	<u>2010</u>
<i>Revenues:</i>		
<i>Property taxes</i>	\$ 3,603,103	\$ 1,752,010
<i>Charges for services</i>	1,889,876	1,030,605
<i>Other revenues</i>	<u>125,741</u>	<u>141,406</u>
<i>Total revenues</i>	<u>5,618,720</u>	<u>2,924,021</u>
 <i>Expenses for services</i>	 <u>2,841,078</u>	 <u>1,309,308</u>
 <i>Change in net assets before extraordinary items</i>	 2,777,642	 1,614,713
<i>Capital Contributions</i>	90,000	
<i>Refund of Prior Years Taxes</i>	(7,139)	
 <i>Net assets, beginning of year</i>	 <u>4,798,031</u>	 <u>3,183,318</u>
<i>Net assets, end of year</i>	<u>\$ 7,658,534</u>	<u>\$ 4,798,031</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the eighteen months ended December 31, 2011 were \$9,085,924 an increase of \$5,975,539 from prior years.

The General Fund balance increased by \$183,812, as a result of increased revenues and capital outlay expenditures.

The Debt Service Fund balance increased by \$802,717, as a result of increased revenues and decreased debt service expenditures.

The Capital Projects Fund increased by \$4,989,010, as a result of bond proceeds.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The original budget adopted by the Board of Directors anticipated a decrease in the fund balance during the eighteen months ended December 31, 2011 of \$870,920.

There were several differences between the budgeted and actual amounts. The major difference was between budgeted expenditures of \$4,262,021 and the actual amount of \$3,487,251. The anticipated budgetary fund balance as of December 31, 2011 was expected to be \$3,121,183 and the actual eighteen months ended fund balance was \$4,175,915.

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current eighteen month period and the previous fiscal year are summarized as follows:

Capital Assets (Net of Accumulated Depreciation)

	<u>2011</u>	<u>2010</u>
Land and easements	\$ 41,572	\$ 41,572
Water facilities	2,725,825	1,935,935
Sewer facilities	<u>1,287,402</u>	<u>1,090,944</u>
Totals	\$ <u>4,054,799</u>	\$ <u>3,068,451</u>

During the current year, the additions to capital assets were as follows:

Water improvements paid for with Series 2011 bond proceeds	\$ 1,024,453
Sewer improvements paid for with Series 2011 bond proceeds	175,010
Total additions to capital assets	\$ <u>1,199,463</u>

Debt

The changes in the debt position of the District during the eighteen months ended December 31, 2011 are summarized as follows:

Bonded debt payable, July 1, 2010	\$ 1,565,000
Bonds sold	5,755,000
Bond principle paid	<u>(770,000)</u>
Bonded debt payable, December 31, 2011	\$ <u>6,550,000</u>

At December 31, 2011, the District has no unlimited tax bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District and \$5,228,683 refunding bonds authorized but unissued.

The District's Series 2004 bonds were sold with an insured rating of "AAA" by virtue of bond insurance issued by Ambac Assurance Corporation ("AMBAC"). As of November 10, 2010, S&P withdrew its rating of AMBAC. Once AMBAC's rating was reduced to below the District's underlying rating, the bond rating became the underlying rating of "A+". The Series 2011 bonds were sold with an insured rating by Assured Guaranty Municipal Corp. (AGMC) of "AA+". On November 30, 2011, AGMC's rating was downgraded to "AA-".

OTHER RELEVANT FACTORS

Relationship to the City of Conroe

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Conroe, the District must conform to a City of Conroe ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Conroe without the District's consent. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

The District received the City of Conroe's notice regarding annexation on February 20, 2012.

OTHER

The District does not foresee any significant changes in the property tax base during the year ending December 31, 2012.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Montgomery County Utility District No. 4's finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Utility District No. 4, c/o Coats, Rose, Yale, Ryman & Lee, P.C., 3 E. Greenway Plaza, Suite 2000, Houston, Tx 77046.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

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

ASSETS

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Cash & Investments (Note 3)	\$ 2,334,109	\$ 1,419,165	\$ 4,344,281	\$ 8,097,555
Taxes Receivable	420,225	371,057		791,282
Other Receivables (Note 4)	216,547			216,547
Joint Venture Investment (Note 10)	1,112,495			1,112,495
Prepayments	10,070			10,070
Internal Receivables	1,498,383		644,729	2,143,112
Accrued Interest Receivable	1,841	217		2,058
Deferred Charges				
Capital Assets (net of accumulated depreciation): (Note 8)				
Land				
Infrastructure				
TOTAL ASSETS	\$ 5,593,670	\$ 1,790,439	\$ 4,989,010	\$ 12,373,119

LIABILITIES

Accounts Payable (Note 4)	\$ 171,425	\$	\$	\$ 171,425
Customer Deposits	105,147			105,147
Accrued Interest Payable				
Deferred Revenues	496,454	371,057		867,511
Internal Payables	644,729	1,498,383		2,143,112
Long-term Liabilities: (Note 5)				
Due within one year				
Due after one year				
Total Liabilities	1,417,755	1,869,440	-	3,287,195

FUND BALANCE/NET ASSETS

Fund Balances:

Nonspendable	10,070			10,070
Committed	276,572	1,115,956		1,392,528
Restricted			4,989,010	4,989,010
Unassigned	3,889,273	(1,194,957)		2,694,316
Total Fund Balances	<u>4,175,915</u>	<u>(79,001)</u>	<u>4,989,010</u>	<u>9,085,924</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 5,593,670	\$ 1,790,439	\$ 4,989,010	\$ 12,373,119

Net Assets:

 Invested in Capital Assets, net of related debt
 Restricted for Debt Service
 Unrestricted
Total Net Assets

Adjust- ments	Statement of Net Assets
\$	\$
	8,097,555
10,385	801,667
	216,547
	1,112,495
	10,070
(2,143,112)	-
	2,058
322,733	322,733
41,572	41,572
4,013,227	4,013,227
<u>2,244,805</u>	<u>14,617,924</u>
	171,425
	105,147
132,818	132,818
(867,511)	-
(2,143,112)	-
795,000	795,000
5,755,000	5,755,000
<u>3,672,195</u>	<u>6,959,390</u>
(10,070)	
(1,392,528)	
(4,989,010)	
(2,694,316)	
<u>(9,085,924)</u>	<u>-</u>
1,849,080	1,849,080
1,990,739	1,990,739
3,818,715	3,818,715
<u>\$ 7,658,534</u>	<u>\$ 7,658,534</u>

The accompanying notes are an integral part of these financial statements.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2011

Fund balances - total governmental funds \$ 9,085,924

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 in the
governmental funds.

Governmental capital assets	\$ 6,509,033	
Less accumulated depreciation	<u>(2,454,234)</u>	4,054,799

Other assets used in governmental activities are not financial
resources and therefore are not reported in the governmental
funds.

Deferred Charges		322,733
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Long-term liabilities, including bonds payable are not due
and payable in the current period and therefore are not
reported in the governmental funds.

Governmental bonds payable	(6,550,000)	
Interest Payable	<u>(132,818)</u>	(6,682,818)

Deferred revenue and penalty and interest in governmental funds
are susceptible to full accrual on the entity-wide statements.

Penalty and Interest Receivable	10,385	
Deferred Revenue	<u>867,511</u>	<u>877,896</u>

Net assets of governmental activities		\$ <u><u>7,658,534</u></u>
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The accompanying notes are in integral part of the financial statements

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011**

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Charges for Water Service	\$ 998,226	\$	\$	\$ 998,226
Charges for Sewer Service	891,650			891,650
Property Taxes (Note 5)	1,577,608	1,336,045		2,913,653
Tap Connection and Inspection Fees	43,990			43,990
Covenant Revenue (Note 12)	12,518			12,518
Investment Earnings	19,632	499	7,709	27,840
Penalties and Interest	17,365	9,246		26,611
Other	20,074			20,074
TOTAL REVENUES	<u>3,581,063</u>	<u>1,345,790</u>	<u>7,709</u>	<u>4,934,562</u>
Expenditures/Expenses:				
Service Operations:				
Water Service	570,257			570,257
Sewer Service	745,689			745,689
Purchased Services	369,666			369,666
Contracted Services	162,559	20,203		182,762
Professional Fees	136,534			136,534
Director Fees	29,700			29,700
Other	273,383	(18,595)	470,877	725,665
Capital Outlay	1,199,463			1,199,463
Debt Service:				
Principal		770,000		770,000
Interest		67,148		67,148
Depreciation (Note 8)				
Total Expenditures/Expenses	<u>3,487,251</u>	<u>838,756</u>	<u>470,877</u>	<u>4,796,884</u>
Excess (Deficiency) of Revenues Over Expenditures	93,812	507,034	(463,168)	137,678
Other Financing Sources/Uses:				
Refund of Prior Years Taxes		(7,139)		(7,139)
Bond Proceeds		302,822	5,452,178	5,755,000
Capital Contributions	90,000			90,000
Excess of Revenues and Other Financing Sources/Uses Over Expenditures	183,812	802,717	4,989,010	5,975,539
Change in Net Assets				
Fund Balance/Net Assets:				
July 1, 2010	3,992,103	(881,718)		3,110,385
December 31, 2011	<u>\$ 4,175,915</u>	<u>\$ (79,001)</u>	<u>\$ 4,989,010</u>	<u>\$ 9,085,924</u>

<u>Adjust- ments</u>	<u>Statement of Activities</u>
\$	\$ 998,226
	891,650
689,450	3,603,103
	43,990
1,911	14,429
	27,840
(7,203)	19,408
	20,074
<u>684,158</u>	<u>5,618,720</u>
	570,257
	745,689
	369,666
	182,762
	136,534
	29,700
(334,789)	390,876
(1,199,463)	-
(770,000)	-
135,331	202,479
213,115	213,115
<u>(1,955,806)</u>	<u>2,841,078</u>
2,639,964	
7,139	(7,139)
(5,755,000)	
(90,000)	90,000
(5,975,539)	
2,777,642	2,777,642
1,687,646	4,798,031
<u>\$ (1,427,390)</u>	<u>\$ 7,658,534</u>

The accompanying notes are an integral part of these financial statements.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011

Net change in fund balances - total governmental funds \$ 610,425

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

Governmental funds report capital outlays as expenditures
However, in the statement of activities, the cost of those
assets is depreciated over their estimated useful lives.

Expenditures for capital assets	\$ 346,092	
Less current year depreciation	<u>(120,206)</u>	225,886

Bond proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term
liabilities in the statement of net assets. Repayment of bond
principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net
assets. This is the amount by which proceeds exceeded repay-
ments.

Principal Payments	745,000
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Some revenues reported in the statement of activities do not
provide current financial resources and therefore are not
reported as revenues in governmental funds.

Standby Revenue	13,125	
Tax Revenue	19,782	
Penalty and Interest	<u>(1,035)</u>	31,872

Some expenses reported in the statement of activities do not
require the use of current financial resources and therefore
are not reported as expenditures in governmental funds.

Accrued Interest	<u>1,530</u>
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Change in net assets of governmental activities	\$ <u><u>1,614,713</u></u>
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The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

NOTE 1. CREATION OF DISTRICT

Montgomery County Utility District No. 4 (the "District") was created by an Act of the 62nd Legislature of the State of Texas, Regular Session, 1971, in accordance with the Texas Water Code, Chapter 54. The District consolidated with Montgomery County Utility District No. 23 pursuant to a consolidation agreement effective February 27, 1978. The Board of Directors held its first meeting on June 6, 1972, and the first bonds were sold on September 7, 1978. The District is empowered, among other things, to purchase, to construct, to operate, and to maintain all works, improvements and facilities necessary for the supply of water, for the collection and processing of wastewater, and for the control and diversion of storm water. The District also contracts for garbage service.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. 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 more significant accounting policies established in GAAP and used by the District are discussed below.

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."

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, the Board of Directors has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. The District is a participant in a joint venture as more fully described in Note 10. No other entities exist that should be considered for inclusion as a component unit. Complete financial statements for the Plant may be obtained from BKD, LLP, 2800 Post Oak Blvd #2600, Houston, Texas 77056.

Basic Financial Statements – Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The District's water and sewer services are classified as governmental-type activities.

In the government-wide Statement of Net Assets, the governmental activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports each of the District's general government revenues. The Statement of Activities reduces gross revenues by direct function expenses.

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic Financial Statements – Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following types are used by the District:

Governmental Funds

The focus of the governmental funds' measurement is upon determination of financial position and changes in financial position rather than upon net income. The following is a description of the governmental funds of the District:

General fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (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:

Fund Balance Classifications

The Nonspendable Fund Balance includes portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies, inventories, prepaid items, long-term advances to other funds, net of deferred interest revenue, long-term receivable, net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

The Restricted Fund Balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource provides (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation.

The Committed Fund Balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Council actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The Unassigned Fund Balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 Years
Water and sewer system	10-45 Years
Machinery and equipment	5-20 Years

Revenues

Substantially all governmental fund revenues are accrued. Property tax revenues are recognized in the year for which they are levied.

Expenditures

Expenditures are recognized when the related fund liability is incurred.

Internal Activity

Interfund activity is reported as either loans, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Budget

The Board of Directors adopts an annual nonappropriated budget for the General Fund in accordance with the accounting principles applicable to that Fund. During the current year, the budget was not amended.

Pension Plan

The District has no employees, therefore, it has no current year contribution obligations. Effective January 1, 2000, the Internal Revenue Service determined that directors are considered to be "employees" for federal payroll purposes only.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Estimates

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

NOTE 3. CASH AND INVESTMENTS

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 instrumentalities, (2) direct obligations of the State of Texas or its agencies, (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 insured, 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 banker's 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.

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.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3. CASH AND INVESTMENTS (continued)

The Public Funds Investment Act, Chapter 2256, Government Code includes a requirement for the District's auditor to perform a compliance audit of the District's compliance with its adopted investment policy. Based upon a test for compliance, the District's auditor acknowledges that the District has substantially complied with the provisions of the investment policy.

	ASSETS AT COST		FAIR VALUE
	Cash and Cash Equivalents	Investments	Combined
GENERAL FUND			
Demand Deposits, Money Market Deposit Accounts and Savings Account	\$ 97,737	\$	\$ 97,737
TexPool		506,372	506,372
Certificates of Deposit		1,730,000	1,730,000
DEBT SERVICE FUND			
(Restricted for Servicing of Bonded Debt)			
Demand Deposits, Money Market Deposit Accounts and Savings Account	989,250		989,250
TexPool		189,915	189,915
Certificates of Deposit		240,000	240,000
CAPITAL PROJECTS FUND			
(Restricted for Purchasing of Fixed Assets)			
Demand Deposits, Money Market Deposit Accounts and Savings Account	4,344,281		4,344,281
TOTALS	\$ 5,431,268	\$ 2,666,287	\$ 8,097,555

Investments are reflected at cost, which the District considers to be fair value. The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool. Federated Investors manage the daily operations of this pool under a contract with the Controller. TexPool has a rating of AAAM by Standard & Poors. The fair value of the District's position in the pool is the same as the value of pool shares. The District also invests in certificates of deposit which are held in the District's name by the issuing bank.

The District invests short-term to avoid any interest rate risks and there is no credit risk based upon the Standard & Poors rating.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011****NOTE 3. CASH AND INVESTMENTS (continued)**

Texas statutes require that any cash balance in any fund shall to the extent not insured by the Federal Deposit Insurance Corporation or its successor be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts, 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 the fiscal year end the carrying amount of the District's bank deposits was \$5,431,268 and the bank balances were \$4,911,321. Of the bank balances, \$601,040 were covered by federal depository insurance and the balance was covered by pledged securities held by a third party.

The District's policy is to require depositories to pledge adequate collateral to secure the District's deposits at all times to the extent that the District's depository balances exceed the limits of federal depository insurance. As of the highest cash balance date of each depository exceeding federal depository insurance, each depository did pledge adequate collateral to secure the deposits of the District. The entities pledging the collateral provided the information concerning market value.

NOTE 4. DISAGGREGATION OF RECEIVABLES AND PAYABLE BALANCES**Receivables**

Receivables at December 31, 2011, were as follows:

	<u>Accounts</u>	<u>Standby</u>	<u>Total Receivables</u>
Governmental activities:			
General	\$ 140,318	\$ 76,229	\$ 216,547
Total – governmental activities	\$ 140,318	\$ 76,229	\$ 216,547

Payables

Payables at December 31, 2011, were as follows:

	<u>Vendors</u>	<u>Total Payables</u>
Governmental activities:		
General	\$ 171,425	\$ 171,425
Total–governmental activities	\$ 171,425	\$ 171,425

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5. BONDS PAYABLE

Bonded debt activity for the current year is as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2011</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds Payable:					
Series 2004	\$ 1,565,000	\$	\$ 770,000	\$ 795,000	\$ 795,000
Series 2011		5,755,000		5,755,000	
Total Bonds Payable	\$ 1,565,000	\$ 5,755,000	\$ 770,000	\$ 6,550,000	\$ 795,000

The outstanding bonds of Montgomery County Utility District No. 4, Montgomery County, Texas, are callable for redemption prior to maturity at the option of the District. The bonds may be called in whole or in part for the purpose of retirement or refunding, or both, at par in addition to unpaid accrued interest. Bonds of the Series 2004 may be called on March 1, 2010 or any date thereafter.

Bonds Voted	\$14,160,000	Refunding Bonds Approved	\$14,160,000
Bonds Approved For Sale	14,160,000	Refunding Bonds Sold	8,931,317
Bonds Sold	14,160,000		

Bonds outstanding as of December 31, 2011 are as follows:

	<u>Interest Rate</u>	<u>Amount</u>	<u>Amount Outstanding July 1, 2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Amount Outstanding December 31, 2011</u>
Unlimited Tax Refunding Bonds:						
	2.00% to					
Series 2004	3.50%	\$ 5,745,000	\$ 1,565,000	\$	\$ 770,000	\$ 795,000
Unlimited Tax Bonds:						
	3.00% to					
Series 2011	5.50%	5,755,000		5,755,000		5,755,000
			\$ 1,565,000	\$ 5,755,000	\$ 770,000	\$ 6,550,000

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011****NOTE 5. BONDS PAYABLE (continued)**

As of December 31, 2011, the Debt Service Requirements on bonds outstanding are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 795,000	\$ 320,956	\$ 1,115,956
2013	200,000	240,135	440,135
2014	210,000	228,860	438,860
2015	220,000	217,035	437,035
2016	230,000	204,660	434,660
2017	245,000	191,597	436,597
2018	255,000	177,848	432,848
2019	270,000	163,410	433,410
2020	285,000	151,710	436,710
2021	300,000	142,748	442,748
2022	315,000	132,941	447,941
2023	335,000	121,960	456,960
2024	350,000	109,754	459,754
2025	370,000	96,241	466,241
2026	390,000	81,516	471,516
2027	410,000	65,658	475,658
2028	435,000	48,546	483,546
2029	455,000	30,069	485,069
2030	480,000	10,200	490,200
	<u>\$ 6,550,000</u>	<u>\$ 2,735,844</u>	<u>\$ 9,285,844</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

The District appears to be in compliance with the provisions of the Bond Order for each respective Series. At December 31, 2011, the Debt Service Fund had coverage of 1.27.

During the eighteen months ended December 31, 2011, the District levied an ad valorem Debt Service Tax at the rate of \$0.2211 per \$100 of assessed valuation, which resulted in a tax levy of \$954,888 of the taxable valuation of \$431,880,597 for the 2010 tax year and a tax rate of \$0.23 per \$100 of assessed valuation, which resulted in a tax levy of \$846,430 of the taxable valuation of \$367,991,295 for the 2011 tax year. The Series 2004 Bonds and the Bond Resolution for the Series 2011 bonds require that the District levy and collect an ad valorem Debt Service Tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5. BONDS PAYABLE (continued)

The District's tax calendar is as follows:

Lien Date	-	January 1
Levy Date	-	Before the later of September 30 or the 60 th day after the receipt of certified appraisal roll
Due Date	-	Upon receipt, not later than January 31
Delinquent Date	-	February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 6. RESTRICTED CASH AND TEMPORARY INVESTMENTS

The following balances were restricted by the Bond Order as of December 31, 2011:

	<u>Restricted For</u>	
	<u>Servicing of Bonded Debt</u>	<u>Purchasing of Fixed Assets</u>
Cash	\$ 989,250	\$ 4,344,281
Investments	429,915	-
Total	<u>\$ 1,419,165</u>	<u>\$ 4,344,281</u>

NOTE 7. INSURANCE

In accordance with the Bond Order for the Series 2004 bonds and the Bond Resolution for the Series 2011 Bonds, the District agrees it will at all times keep insured such parts of the System as are usually insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a reasonable insurance company or companies against risk, accidents or casualties against which and to the extent insurance is usually carried by such entities; provided, however, that at any time while any contractor engaged in construction work shall be fully responsible, therefore, the District shall not be required to carry such insurance. At the Balance Sheet date, the facilities were insured for \$4,240,000 with no co-insurance clause.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the current year is as follows:

	<u>Balances July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances December 31, 2011</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 41,572	\$ -	\$ -	\$ 41,572
Total capital assets not being depreciated	<u>41,572</u>	<u>-</u>	<u>-</u>	<u>41,572</u>

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011****NOTE 8. CAPITAL ASSETS (continued)**

	<u>Balances July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances December 31, 2011</u>
Capital assets, being depreciated				
Water	3,370,251	1,024,453		4,394,704
Sewer	1,897,747	175,010		2,072,757
Total capital assets being depreciated	<u>5,267,998</u>	<u>1,199,463</u>	<u>-</u>	<u>6,467,461</u>
Less accumulated depreciation for:				
Water and Sewer	(2,241,119)	(213,115)		(2,454,234)
Total accumulated depreciation	<u>(2,241,119)</u>	<u>(213,115)</u>	<u>-</u>	<u>(2,454,234)</u>
Total capital assets, being depreciated, net	<u>3,026,879</u>	<u>986,348</u>	<u>-</u>	<u>4,013,227</u>
Governmental activities capital assets, net	\$ <u>3,068,451</u>	\$ <u>986,348</u>	\$ <u>-</u>	\$ <u>4,054,799</u>

NOTE 9. MAINTENANCE TAXES

An election held April 1, 1978, authorized a Maintenance Tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. During the eighteen months ended December 31, 2011, the District has levied an ad valorem Maintenance Tax of \$0.2684 per \$100 valuation for the 2010 tax year and \$0.2595 per \$100 valuation for the 2011 tax year. This Maintenance Tax was used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

NOTE 10. CONTRACT WITH OTHER DISTRICT

On October 22, 1979, the District amended the water supply and sanitary sewer service contract with Montgomery County Utility District No. 3. This contract is for the term of forty years unless either party gives eighteen months notice of termination. The contract calls for a monthly service charge per service connection, subject to yearly modifications for increased operating costs. Effective July 1989, the District's new water well was completed and placed in service, and the monthly purchase of water from District No. 3 was discontinued. In May 1991, the sewage treatment plant expansion was completed and the districts began sharing operating costs.

The districts jointly own the 700,000 gallons-per-day plant. (As of February 1, 2002, the plant has been expanded to 950,000 gallons-per-day) District No. 3 operates the plant on behalf of the districts. Operating costs are shared based on costs per equivalent connection times the number of equivalent connections in each district. During the current period, the District was billed \$348,466 for its share of operating costs, of which \$56,449 is payable to District No. 3 at December 31, 2011.

On April 18, 2011, the District authorized construction of a new plant.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 11. CONTRACT TO LEASE PREMISES

On September 7, 1995, the District entered into a contract with Rural Fire Prevention District No. 3. This contract is for a term of forty years. Under its terms, the lessee shall use a lot leased from the District as a firefighting and emergency medical services dispatch facility.

NOTE 12. COVENANT FEES

The District is the beneficiary of covenants included in the subdivision's deed restrictions for substantially all subdivided property in the District. These covenants include the imposition of a contractual service availability fee ("Covenant Fee") payable to the District and is secured by a subordinate lien on the subdivided property as provided in the deed restrictions. The District does not assess standby fees as defined in Section 50.056 of the Texas Water Code. These Covenant Fees and associate liens are enforceable in accordance with the terms of the deed restrictions and applicable general law and are not subject to review or approval by the Texas Commission on Environmental Quality. Covenant fees are recorded in revenue as collected.

NOTE 13. 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. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

NOTE 14. CHANGE OF FISCAL YEAR-END

The District was granted the authority to change its year-end from June 30 to December 31 effective July 1, 2010.

NOTE 15. FUND DEFICIT

The \$79,001 deficit in the Debt Service Fund is the result of a reduced tax levy which may require transfers of funds from the General Fund.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2011

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011**

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance - Positive (Negative)</u>
REVENUES:			
Charges for Water Service	\$ 998,226	\$ 940,230	\$ 57,996
Charges for Sewer Service	891,650	893,286	(1,636)
Property Taxes	1,577,608	1,362,150	215,458
Tap Connection and Inspection Fees	43,990	40,095	3,895
Covenant Revenue	12,518	16,416	(3,898)
Investment Earnings	19,632	13,068	6,564
Penalties and Interest	17,365	16,020	1,345
Other	20,074	19,836	238
Total Revenues	<u>3,581,063</u>	<u>3,301,101</u>	<u>279,962</u>
EXPENDITURES/EXPENSES:			
Service Operations:			
Water Service	570,257	537,900	(32,357)
Sewer Service	745,689	884,850	139,161
Purchased Services	369,666	387,720	18,054
Contracted Services	162,559	168,960	6,401
Professional Fees	136,534	220,356	83,822
Director Fees	29,700	30,000	300
Other	273,383	339,468	66,085
Capital Outlay	1,199,463	1,692,767	493,304
Total Expenditures Expenses	<u>3,487,251</u>	<u>4,262,021</u>	<u>774,770</u>
Excess (Deficiency) of Revenues over Expenditures	93,812	(960,920)	1,054,732
Other Financing Sources/Uses:			
Capital Contributions	<u>90,000</u>	<u>90,000</u>	
Net Change in Fund Balance	183,812	(870,920)	1,054,732
Fund Balance:			
July 1, 2010	3,992,103	3,992,103	
December 31, 2011	<u>\$ 4,175,915</u>	<u>\$ 3,121,183</u>	<u>\$ 1,054,732</u>

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

SUPPLEMENTAL INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

DECEMBER 31, 2011

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**SERVICES AND RATES
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011**

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

a. Retail Rates Based on 5/8" Meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ <u>11.00</u>	<u>4,000</u>	<u>N</u>	\$ <u>1.35</u>	<u>4,001-10,000</u>
				\$ <u>1.80</u>	<u>10,001-15,000</u>
				\$ <u>2.25</u>	<u>15,001-20,000</u>
				\$ <u>2.75</u>	<u>20,001-25,000</u>
				\$ <u>3.50</u>	<u>25,001-30,000</u>
				\$ <u>5.00</u>	<u>30,001 and over</u>
Waste- Water:	\$ <u>30.00</u>	<u>-</u>	<u>Y</u>	\$ _____	_____
				\$ _____	_____
Surcharge:	\$ <u>.07</u>	<u>1,000</u>	_____	\$ _____	_____

District employs winter averaging for wastewater usage? Yes No X

Total charges per 10,000 gallons usage: Water: \$ 19.80 Wastewater: \$ 30.00

See accompanying auditor's report.

2. Retail Service Providers (continued)

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>
Unmetered		
≤ ¾"	1,412	1,390
1"	53	53
1 ½"	2	2
2"	10	10
3"	2	2
4"	1	1
6"		
8"		
10"		
Total Water	1,480	1,458
Total Wastewater	1,457	1,435

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):

Gallons pumped into system:	<u>610,677</u>	Water Accountability Ratio: (Gallons billed/Gallons pumped)
Gallons billed to customers:	<u>576,770</u>	<u>94.44%</u>

4. Standby Fees: (authorized only under TWC Section 49.231):

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

If yes, Date of the most recent Commission Order: _____

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

If yes, Date of the most recent Commission Order: _____

See accompanying auditor's report.

5. Location of District:

County(ies) in which district is located. Montgomery

Is the District located entirely within one county? Yes X No

Is the District located within a city? Entirely___ Partly___ Not at all_ X

City(ies) in which district is located. _____

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely X Partly____ Not at all____

ETJ's in which district is located. Conroe, Tx

Are Board members appointed by an office outside the district? Yes ____ No X

If Yes, by whom? _____

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**SCHEDULE OF GENERAL FUND EXPENDITURES
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011**

Professional Fees:

Audit	\$ 9,200
Legal	55,442
Engineering	71,892
	<u>136,534</u>

Purchased Services for Resale:

Purchased Water & Sewer Service	348,466
Tap Connection Expenses	21,200
Total Purchased Services for Resale	<u>369,666</u>

Contracted Services:

Bookkeeping	59,006
Operator	103,553
	<u>162,559</u>

Utilities	<u>19,190</u>
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Repairs and Maintenance	<u>1,014,823</u>
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Administrative Expenditures:

Directors Fees	29,700
Office Supplies	30,568
Insurance	18,510
	<u>78,778</u>

Garbage	312,221
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Other Expenditures	194,017
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Capital Outlay	<u>1,199,463</u>
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TOTAL EXPENDITURES	<u><u>\$ 3,487,251</u></u>
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See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**SCHEDULE OF TEMPORARY INVESTMENTS
DECEMBER 31, 2011**

<u>Funds</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance December 31, 2011</u>	<u>Accrued Interest Receivable December 31, 2011</u>
<u>General Fund</u>				
Certificate of Deposit:				
No. 009170053739	0.35%	3/12/12	\$ 240,000	\$ 253
No. 17785	0.80%	2/19/12	95,000	271
No. 1002094348	0.40%	5/12/12	150,000	81
No. 3300041004	0.50%	6/19/12	95,000	12
No. 521807	0.45%	1/22/12	190,000	581
No. 3116002564	0.25%	1/5/12	95,000	55
No. 3116001667	0.25%	2/3/12	95,000	75
No. 1111757895	0.65%	7/27/12	95,000	2
No. 1002113156	0.60%	1/3/12	95,000	136
No. 19046	0.80%	5/1/12	95,000	121
No. 66000092	0.25%	4/12/12	150,000	79
No. 1110706537	0.65%	4/20/12	95,000	167
No. 5004478	0.40%	7/25/12	240,000	8
TexPool	Var.	Var.	506,372	
Total			2,236,372	1,841
<u>Debt Service Fund</u>				
Certificate of Deposit:				
No. 4576	0.30%	2/15/12	240,000	217
TexPool	Var.	Var.	129,104	-
Total			369,104	217
Total - All Funds			\$ 2,605,476	\$ 2,058

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**TAXES LEVIED AND RECEIVABLE
DECEMBER 31, 2011**

	Maintenance Taxes	Debt Service Taxes
Taxes Receivable, July 1, 2010	\$ 49,170	\$ 43,788
Adjustments	<u>5,838</u>	<u>3,036</u>
	55,008	46,824
Original Tax Rolls ⁽¹⁾	<u>1,942,825</u>	<u>1,660,278</u>
Total To Be Accounted For	<u>1,997,833</u>	<u>1,707,102</u>
Tax Collections:		
Current Year	(558,617)	(504,043)
Prior Years	<u>(1,018,991)</u>	<u>(832,002)</u>
Total Collections	<u>(1,577,608)</u>	<u>(1,336,045)</u>
Taxes Receivable, December 31, 2011	\$ <u>420,225</u>	\$ <u>371,057</u>
Taxes Receivable By Years:		
2011	\$ 386,250	\$ 342,386
2010	8,813	7,260
2009	5,046	4,398
2008	3,929	4,118
2007	3,463	1,536
2006	2,552	1,570
2005	1,971	1,025
2004	1,621	527
2003	1,576	820
2002	1,446	751
2001	1,227	638
2000	918	477
1999	45	1,814
1998	515	1,717
1997	99	364
1996	101	373
1995	86	344
1994	371	418
1993	196	176
1992	<u>345</u>	<u>345</u>
	\$ <u>420,225</u>	\$ <u>371,057</u>

	<u>2010</u>	<u>2011</u>
⁽¹⁾ Maintenance	\$ 987,937	\$ 813,849
Debt Service	\$ 954,888	\$ 846,430

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**TAXES LEVIED AND RECEIVABLE
DECEMBER 31, 2011**

Property Valuations:	2011	2010	2009	2008
Land	\$ 69,918,346	\$ 69,936,515	\$ 67,221,660	\$ 62,497,990
Improvements	290,713,123	290,788,669	279,500,589	259,860,243
Personal Property	<u>7,359,826</u>	<u>7,361,739</u>	<u>7,075,964</u>	<u>6,578,739</u>
 Total Property Valuations	 <u>\$ 367,991,295</u>	 <u>\$ 368,086,923</u>	 <u>\$ 353,798,213</u>	 <u>\$ 328,936,972</u>
 Tax Rate Per \$100 Valuation:				
Debt service tax rates	\$ 0.2300	\$ 0.2211	\$ 0.2306	\$ 0.2602
Maintenance tax rates	<u>0.2595</u>	<u>0.2684</u>	<u>0.2646</u>	<u>0.2400</u>
 Total Tax Rates per \$100 Valuation	 <u>\$ 0.4895</u>	 <u>\$ 0.4895</u>	 <u>\$ 0.4952</u>	 <u>\$ 0.5002</u>
 Original Tax Levy:	 <u>\$ 1,801,317</u>	 <u>\$ 1,801,785</u>	 <u>\$ 1,752,010</u>	 <u>\$ 1,672,647</u>
 Percentage of Taxes Collected to Taxes Levied	 <u>59.6%</u>	 <u>99.6%</u>	 <u>99.5%</u>	 <u>99.5%</u>

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

GENERAL LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
DECEMBER 31, 2011

For The Years Ending December 31,	Series 2004		
	Principal Due March 1	Interest Due September 1, March 1	Total
2012	\$ 795,000	\$ 27,825	\$ 822,825
	\$ 795,000	\$ 27,825	\$ 822,825

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

GENERAL LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
DEC EMBER 31, 2011

For The Years Ending	Series 2011		
	Principal	Interest	
December 31,	Due	Due	
	March 1	September 1,	Total
		March 1	
2012	\$	\$ 293,131	\$ 293,131
2013	200,000	240,135	440,135
2014	210,000	228,860	438,860
2015	220,000	217,035	437,035
2016	230,000	204,660	434,660
2017	245,000	191,597	436,597
2018	255,000	177,848	432,848
2019	270,000	163,410	433,410
2020	285,000	151,710	436,710
2021	300,000	142,748	442,748
2022	315,000	132,941	447,941
2023	335,000	121,960	456,960
2024	350,000	109,754	459,754
2025	370,000	96,241	466,241
2026	390,000	81,516	471,516
2027	410,000	65,658	475,658
2028	435,000	48,546	483,546
2029	455,000	30,069	485,069
2030	480,000	10,200	490,200
	<u>\$ 5,755,000</u>	<u>\$ 2,708,019</u>	<u>\$ 8,463,019</u>

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**GENERAL LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
DECEMBER 31, 2011**

For The Years Ending December 31,	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2012	\$ 795,000	\$ 320,956	\$ 1,115,956
2013	200,000	240,135	440,135
2014	210,000	228,860	438,860
2015	220,000	217,035	437,035
2016	230,000	204,660	434,660
2017	245,000	191,597	436,597
2018	255,000	177,848	432,848
2019	270,000	163,410	433,410
2020	285,000	151,710	436,710
2021	300,000	142,748	442,748
2022	315,000	132,941	447,941
2023	335,000	121,960	456,960
2024	350,000	109,754	459,754
2025	370,000	96,241	466,241
2026	390,000	81,516	471,516
2027	410,000	65,658	475,658
2028	435,000	48,546	483,546
2029	455,000	30,069	485,069
2030	480,000	10,200	490,200
	<u>\$ 6,550,000</u>	<u>\$ 2,735,844</u>	<u>\$ 9,285,844</u>

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**ANALYSIS OF CHANGES IN GENERAL LONG-TERM DEBT
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011**

	Bond Issues		
	Series 2004	Series 2011	Totals
Interest Rate	2.00%-3.50%	3.00%-5.50%	
Dates Interest Payable	March 1, September 1	March 1, September 1	
Maturity Dates	March 1, 2005/2012	March 1, 2013/2030	
Bonds Outstanding			
July 1, 2010	\$ 1,565,000	\$ -	\$ 1,565,000
Bonds Sold During the Current Year	-	5,755,000	5,755,000
Retirements: Principal	<u>770,000</u>	<u>-</u>	<u>770,000</u>
Bonds Outstanding			
December 31, 2011	\$ <u>795,000</u>	\$ <u>5,755,000</u>	\$ <u>6,550,000</u>
Retirements: Interest	\$ 67,148	\$ -	\$ 67,148

Paying Agent Name & Address:

Series 2004 - Bank of New York, Houston, Tx

Series 2011 - The Bank of New York Mellon Trust Co., N.A., Dallas, Texas

Bond Authority:	Tax Bonds*	Other Bonds	Refunding Bonds
Amount Authorized			
By Voters	\$ 14,160,000	\$ N/A	\$ 14,160,000
Amount Issued	1,416,000	N/A	8,931,317
Remaining To Be Issued		N/A	5,228,683

*Includes all bonds secured with tax revenues.

Debt Service Fund Cash & Temporary Investments
balances at December 31, 2011

\$ 1,419,165

Average annual Debt Service payment (Principal &
Interest) for remaining term of all debt:

\$ 488,729

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES -
GENERAL AND DEBT SERVICE FUNDS
FOR THE FOUR YEARS ENDED JUNE 30, 2010 AND
THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011**

	Amount		
	2011	2010	2009
GENERAL FUND			
REVENUES:			
Service Revenue	\$ 1,889,876	\$ 1,030,605	\$ 1,037,134
Penalty and Interest	17,365	9,162	14,867
Water Tap Revenue	43,990	43,646	62,390
Covenant Revenue	12,518	14,365	10,598
Interest	19,632	19,183	13,313
Maintenance Tax Revenue	1,577,608	933,309	894,884
Other	20,074	20,518	14,349
Total Revenues	<u>3,581,063</u>	<u>2,070,788</u>	<u>2,047,535</u>
EXPENDITURES:			
Professional Fees	136,534	65,012	67,267
Purchased Services for Resale	369,666	308,097	332,433
Contracted Services	162,559	103,926	91,539
Utilities	19,190	11,900	15,013
Repairs and Maintenance	1,014,823	284,058	351,003
Other	585,016	326,118	286,948
Capital Outlay Expenditures	1,199,463	346,092	398,473
Total Expenditures	<u>3,487,251</u>	<u>1,445,203</u>	<u>1,542,676</u>
EXCESS REVENUES (EXPENDITURES)	\$ <u>93,812</u>	\$ <u>625,585</u>	\$ <u>504,859</u>
DEBT SERVICE FUND			
REVENUES:			
Tax Revenue	\$ 1,336,045	\$ 814,829	\$ 881,885
Penalty and Interest	9,246	21,007	27,958
Interest	499	727	997
Other		708	62
Total Revenues	<u>1,345,790</u>	<u>837,271</u>	<u>910,902</u>
EXPENDITURES:			
Contracted Services	20,203	13,349	13,728
Other	(18,595)	724	723
Debt Service and Related Expenditures	837,148	822,448	820,848
Total Expenditures	<u>838,756</u>	<u>836,521</u>	<u>835,299</u>
EXCESS (REVENUES) EXPENDITURES	\$ <u>507,034</u>	\$ <u>750</u>	\$ <u>75,603</u>
Total Active Retail Water And/Or Wastewater Connections	<u>1,458</u>	<u>1,409</u>	<u>1,425</u>

		Percent				
<u>2008</u>	<u>2007</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 871,051	\$ 714,044	52.8%	49.8%	50.7%	41.7%	44.8%
9,936	7,767	0.5%	0.4%	0.7%	0.5%	0.5%
149,965	148,795	1.2%	2.1%	3.0%	7.2%	9.3%
20,754	23,518	0.3%	0.7%	0.5%	1.0%	1.5%
38,946	49,648	0.5%	0.9%	0.7%	1.9%	3.1%
982,370	639,148	44.1%	45.1%	43.7%	47.0%	40.1%
18,278	10,931	0.6%	1.0%	0.7%	0.9%	0.7%
<u>2,091,300</u>	<u>1,593,851</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
57,483	39,315	3.8%	3.1%	3.3%	2.7%	2.5%
451,414	431,195	10.3%	14.9%	16.2%	21.6%	27.1%
80,268	77,753	4.5%	5.0%	4.5%	3.8%	4.9%
12,354	13,021	0.5%	0.6%	0.7%	0.6%	0.8%
181,564	263,512	28.3%	13.7%	17.1%	8.7%	16.5%
209,325	68,657	16.3%	15.7%	14.0%	10.0%	4.3%
659,375	762,098	33.5%	16.7%	19.5%	31.5%	47.8%
<u>1,651,783</u>	<u>1,655,551</u>	<u>97.4%</u>	<u>69.8%</u>	<u>75.3%</u>	<u>79.0%</u>	<u>103.9%</u>
\$ <u>439,517</u>	\$ <u>(61,700)</u>	<u>2.6%</u>	<u>30.2%</u>	<u>24.7%</u>	<u>21.0%</u>	<u>-3.9%</u>
\$ 438,665	\$ 397,229	99.3%	97.3%	96.8%	96.6%	93.8%
13,199	15,923	0.7%	2.5%	3.1%	2.9%	3.8%
2,427	10,269	0.0%	0.1%	0.1%	0.5%	2.4%
	65	0.0%	0.1%	0.0%	0.0%	0.0%
<u>454,291</u>	<u>423,486</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
12,030	8,166	1.5%	1.6%	1.5%	2.6%	1.9%
871	1,705	-1.4%	0.1%	0.1%	0.2%	0.4%
821,848	825,648	62.2%	98.2%	90.1%	180.9%	195.0%
<u>834,749</u>	<u>835,519</u>	<u>62.3%</u>	<u>99.9%</u>	<u>91.7%</u>	<u>183.7%</u>	<u>197.3%</u>
\$ <u>(380,458)</u>	\$ <u>(412,033)</u>	<u>37.7%</u>	<u>0.1%</u>	<u>8.3%</u>	<u>-83.7%</u>	<u>-97.3%</u>
<u>1,341</u>	<u>1,334</u>					

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**BOARD MEMBERS, KEY ADMINISTRATIVE PERSONNEL AND CONSULTANTS
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011**

Complete District Mailing Address: 3 E. Greenway Plaza, Suite 2000, Houston, Tx 77046

District Business Telephone Number: (713) 651-0111

Submission Date of the most recent District Registration Form: 5/5/11
(TWC Sections 36.054 and 49.054)

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200
(Set by Board Resolution-TWC Section 49.060)

<u>Name</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid 12/31/11</u>	<u>Expense Reimburse- ments 12/31/11</u>	<u>Title at Year End</u>
BOARD MEMBERS				
Frederick Stow	Elected 5/08 - 5/12	\$ -	\$ -	President
J. Frank Haasbeek	Elected 5/10 - 5/14	3,150	-	Vice-President/ Investment Officer
Gary S. North	Elected 5/10 - 5/14	10,650	-	Secretary/ Treasurer
Carl D. Clay	Appointed 6/08 - 5/12	7,950	-	Director
Marvin Carter	Appointed 8/09 - 5/12	7,950	-	Director

KEY ADMINISTRATIVE PERSONNEL

N/A

Note: 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.

See accompanying auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

**BOARD MEMBERS, KEY ADMINISTRATIVE PERSONNEL AND CONSULTANTS
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2011**

<u>Name</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees Paid 12/31/11</u>	<u>Expense Reimburse- ments 12/31/11</u>	<u>Title at Year End</u>
CONSULTANTS				
Hays Utility North Corp.	04/01/95	\$ 103,553	\$ -	Operator
Municipal Accounts & Consulting, LP	01/01/95	59,006	-	Bookkeeper
J.R. Moore, Jr.	03/01/95	583	-	Tax Collector
David L. Merritt, P.C.	09/18/96	9,200	-	Auditor
Bleyl & Associates	06/18/02	71,892	-	Engineer
RBC Capital Markets, LLC	09/15/96	-	-	Financial Advisor
Coats, Rose, Yale, Ryman & Lee, P.C.	2/25/10	55,442	-	Attorney

See accompanying auditor's report.