

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**

**MONTGOMERY COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2014**



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## TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-11
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	13-14
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	15
NOTES TO THE FINANCIAL STATEMENTS	16-29
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	31
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	33-35
GENERAL FUND EXPENDITURES	36-37
INVESTMENTS	38
TAXES LEVIED AND RECEIVABLE	39-40
LONG-TERM DEBT SERVICE REQUIREMENTS	41-43
CHANGE IN LONG-TERM BOND DEBT	44-45
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	46-49
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	50-51



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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Utility District No. 4 (the "District"), as of and for the year ended December 31, 2014, 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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





## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2014, 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 Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 31 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

April 23, 2015



**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

Management's discussion and analysis of Montgomery County Utility District No. 4's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the District's financial statements, which begin on page 8.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide statements is the Statement of Net Position. This information is found in the Statement of Net Position column on pages 8 through 11. 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 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 on pages 13 and 14 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 three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**FUND FINANCIAL STATEMENTS** (Continued)

assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position on page 12, and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 15 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE FINANCIAL STATEMENTS**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 29 in this report.

**OTHER INFORMATION**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). Budgetary comparison schedules are included as RSI for the General Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The District's assets exceeded liabilities and deferred inflows of resources by \$5,953,610 as of December 31, 2014. A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services. The following is a comparative analysis of government-wide changes in net position:

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

	Summary of Changes in the Statement of Net Position		
	2014	2013	Change Positive (Negative)
Current and Other Assets	\$ 12,622,249	\$ 5,170,324	\$ 7,451,925
Capital Assets (Net of Accumulated Depreciation)	8,606,160	8,453,225	152,935
Total Assets	\$ 21,228,409	\$ 13,623,549	\$ 7,604,860
Long-Term Liabilities	\$ 12,709,618	\$ 5,555,000	\$ (7,154,618)
Other Liabilities	1,073,102	596,811	(476,291)
Total Liabilities	\$ 13,782,720	\$ 6,151,811	\$ (7,630,909)
Deferred Inflows of Resources	\$ 1,492,079	\$ 1,541,866	\$ 49,787
Net Position:			
Net Investment in Capital Assets	\$ 3,552,178	\$ 3,933,601	\$ (381,423)
Restricted	576,154	(676,477)	1,252,631
Unrestricted	1,825,278	2,672,748	(847,470)
Total Net Position	\$ 5,953,610	\$ 5,929,872	\$ 23,738

\*

The following table provides a summary of the District's operations for the years ending December 31, 2014 and December 31, 2013. The District's net position increased by \$23,738.

	Summary of Changes in the Statement of Activities		
	2014	2013	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,532,792	\$ 1,541,886	\$ (9,094)
Charges for Services	1,268,348	1,165,112	103,236
Other Revenues	204,024	80,054	123,970
Total Revenues	\$ 3,005,164	\$ 2,787,052	\$ 218,112
Expenses for Services	2,981,426	2,302,378	(679,048)
Change in Net Position	\$ 23,738	\$ 484,674	\$ (460,936)
Net Position, Beginning of Year	5,929,872	5,445,198	484,674
Net Position, End of Year	\$ 5,953,610	\$ 5,929,872	\$ 23,738

\*

\* As Adjusted, See Note 13

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

The District's combined fund balances as of December 31, 2014, were \$10,434,954, an increase of \$7,512,615 from the prior year.

The General Fund fund balance increased by \$136,553, primarily due to tax and service revenues exceeding the cost of operating and maintaining the District's system.

The Debt Service Fund fund balance increased by \$365,802, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by \$7,010,260, primarily due to unspent bond proceeds received in the current year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the General Fund budget during the fiscal year. Actual revenue was \$117,132 less than budgeted revenue primarily due to lower property tax and water service revenues than were anticipated. Actual expenditures were \$530,222 more than budgeted expenditures, primarily due to higher than anticipated professional fees, purchased wastewater costs, repairs and maintenance costs and capital expenditures. See the budget to actual comparison on page 31.

**CAPITAL ASSETS**

Capital assets as of December 31, 2014, total \$8,606,160 (net of accumulated depreciation) and include land, as well as the water and wastewater systems. Capital asset activity during the current fiscal year included the completion of the water plant no. 1 control panel and lift pumps and the Lakeshore Village collection line improvements. Construction in progress includes: wastewater treatment plant and biological nutrient removal; sewer system improvements; Catahoula Aquifer water well construction; water plant no. 1 improvements; and storm drainage repairs. Additional information on the District's capital assets can be found in Note 6 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2014	2013	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 60,403	\$ 60,403	\$
Construction in Progress	351,060		351,060
Capital Assets, Net of Accumulated Depreciation:			
Water System	3,394,338	3,501,268	(106,930)
Wastewater System	4,800,359	4,891,554	(91,195)
<b>Total Net Capital Assets</b>	<b>\$ 8,606,160</b>	<b>\$ 8,453,225</b>	<b>\$ 152,935</b>

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**LONG-TERM DEBT ACTIVITY**

At year-end, the District had total bond debt payable of \$13,095,000. The changes in the debt position of the District during the fiscal year ended December 31, 2014, are summarized as follows:

Bond Debt Payable, January 1, 2014	\$ 5,555,000
Add: Bond Sale - Series 2014	7,750,000
Less: Bond Principal Paid	<u>210,000</u>
Bond Debt Payable, December 31, 2014	<u>\$ 13,095,000</u>

The District has an underlying rating of "A+". The Series 2011 Bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal. The Series 2014 Bonds carry an insured rating of "AA" by virtue of bond insurance issued by Build America Mutual.

**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 Montgomery County Utility District No. 4, c/o Coats, Rose, Yale, Ryman & Lee P.C., 9 Greenway Plaza, Suite 1100, Houston, TX 77046.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2014**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>		
Cash, Note 5	\$ 242,979	\$ 716,727
Investments, Note 5	1,664,831	711,489
Receivables:		
Property Taxes	597,860	142,738
Penalty and Interest on Delinquent Taxes		7,794
Service Accounts	123,036	
Accrued Interest	1,487	
Other	133,594	
Due from Developer		
Due from Other Funds, Note 2	611,811	
Prepaid Costs	6,999	
Advance for Joint Wastewater Treatment Plant Operations, Note 8	11,570	
Land, Note 6		
Construction in Progress, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
<b>TOTAL ASSETS</b>	<u>\$ 3,394,167</u>	<u>\$ 1,578,748</u>

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



<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 8,261,145	\$ 9,220,851 2,376,320	\$	\$ 9,220,851 2,376,320
	740,598		740,598
	7,794		7,794
	123,036		123,036
	1,487		1,487
	133,594		133,594
	611,811	(611,811)	
	6,999		6,999
	11,570		11,570
		60,403	60,403
		351,060	351,060
		<u>8,194,697</u>	<u>8,194,697</u>
<u>\$ 8,261,145</u>	<u>\$ 13,234,060</u>	<u>\$ 7,994,349</u>	<u>\$ 21,228,409</u>

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

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2014**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 192,914	\$
Accrued Interest Payable		
Annexation Deposits	5,627	
Retainage Payable		
Due to Other Funds, Note 2		589,070
Security Deposits	113,860	
Long Term Liabilities:		
Bonds Payable, Due Within One Year, Note 3		
Bonds Payable, Due After One Year, Note 3		
<b>TOTAL LIABILITIES</b>	\$ 312,401	\$ 589,070
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 1,296,318	\$ 273,699
Penalty and Interest on Delinquent Taxes		7,794
Standby Fees	104,315	
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	\$ 1,400,633	\$ 281,493
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 6,999	\$
Joint Wastewater Treatment Plant		
Operating Advance, Note 8	11,570	
Restricted for Authorized Construction		
Restricted for Debt Service		708,185
Unassigned	1,662,564	
<b>TOTAL FUND BALANCES</b>	\$ 1,681,133	\$ 708,185
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 3,394,167	\$ 1,578,748
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$	\$ 192,914	\$	\$ 192,914
		177,933	177,933
	5,627		5,627
192,768	192,768		192,768
22,741	611,811	(611,811)	
	113,860		113,860
		390,000	390,000
		12,709,618	12,709,618
<u>\$ 215,509</u>	<u>\$ 1,116,980</u>	<u>\$ 12,665,740</u>	<u>\$ 13,782,720</u>
\$	\$ 1,570,017	\$	\$ 1,492,079
	7,794	(77,938)	
	104,315	(7,794)	
		(104,315)	
<u>\$ -0-</u>	<u>\$ 1,682,126</u>	<u>\$ (190,047)</u>	<u>\$ 1,492,079</u>
\$	\$ 6,999	\$	\$
	11,570	(6,999)	
8,045,636	8,045,636	(11,570)	
	708,185	(8,045,636)	
	1,662,564	(708,185)	
		(1,662,564)	
<u>\$ 8,045,636</u>	<u>\$ 10,434,954</u>	<u>\$ (10,434,954)</u>	<u>\$ - 0 -</u>
<u>\$ 8,261,145</u>	<u>\$ 13,234,060</u>		
		\$ 3,552,178	\$ 3,552,178
		576,154	576,154
		1,825,278	1,825,278
		<u>\$ 5,953,610</u>	<u>\$ 5,953,610</u>

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

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

Total Fund Balances - Governmental Funds	\$ 10,434,954
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	8,606,160
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Deferred tax revenues and deferred penalty and interest revenues for the 2013 and prior tax levies and standby fees became part of recognized revenue in the governmental activities of the District.	190,047
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (177,933)	
Bonds Payable	<u>(13,099,618)</u>	<u>(13,277,551)</u>
Total Net Position - Governmental Activities		<u>\$ 5,953,610</u>

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

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**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 561,696	\$ 970,377
Water Service	499,620	
Wastewater Service	605,641	
Groundwater Reduction Plan Fees	60,990	
Penalty and Interest	10,490	8,952
Tap Connection and Inspection Fees	67,750	
Covenant Revenue	13,940	
Investment Revenues	3,516	257
Miscellaneous Revenues	188,205	
<b>TOTAL REVENUES</b>	<b>\$ 2,011,848</b>	<b>\$ 979,586</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 291,041	\$ 2,265
Contracted Services	305,432	13,695
Purchased Wastewater Service, Note 8	257,927	
Utilities	15,511	
Repairs and Maintenance	574,257	
Depreciation, Note 6		
Other	246,146	155
Capital Outlay	184,981	
Debt Service:		
Bond Issuance Costs		
Bond Principal		210,000
Bond Interest		387,669
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 1,875,295</b>	<b>\$ 613,784</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<b>\$ 136,553</b>	<b>\$ 365,802</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Bond Premium	\$	\$
Long-Term Debt Issued, Note 12		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 136,553</b>	<b>\$ 365,802</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - JANUARY 1, 2014, AS ADJUSTED, NOTE 13</b>	<b>1,544,580</b>	<b>342,383</b>
<b>FUND BALANCES/NET POSITION - DECEMBER 31, 2014</b>	<b>\$ 1,681,133</b>	<b>\$ 708,185</b>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,532,073	\$ 719	\$ 1,532,792
	499,620		499,620
	605,641		605,641
	60,990		60,990
	19,442	(3,789)	15,653
	67,750		67,750
	13,940	4,754	18,694
12,046	15,819		15,819
	188,205		188,205
<u>\$ 12,046</u>	<u>\$ 3,003,480</u>	<u>\$ 1,684</u>	<u>\$ 3,005,164</u>
\$	\$ 293,306	\$	\$ 293,306
	319,127		319,127
	257,927		257,927
	15,511		15,511
	574,257		574,257
		271,029	271,029
312	246,613		246,613
238,983	423,964	(423,964)	
517,270	517,270		517,270
	210,000	(210,000)	
	387,669	98,717	486,386
<u>\$ 756,565</u>	<u>\$ 3,245,644</u>	<u>\$ (264,218)</u>	<u>\$ 2,981,426</u>
<u>\$ (744,519)</u>	<u>\$ (242,164)</u>	<u>\$ 265,902</u>	<u>\$ 23,738</u>
\$ 4,779	\$ 4,779	\$ (4,779)	\$
<u>7,750,000</u>	<u>7,750,000</u>	<u>(7,750,000)</u>	
<u>\$ 7,754,779</u>	<u>\$ 7,754,779</u>	<u>\$ (7,754,779)</u>	<u>\$ -0-</u>
\$ 7,010,260	\$ 7,512,615	\$ (7,512,615)	\$
		23,738	23,738
<u>1,035,376</u>	<u>2,922,339</u>	<u>3,007,533</u>	<u>5,929,872</u>
<u>\$ 8,045,636</u>	<u>\$ 10,434,954</u>	<u>\$ (4,481,344)</u>	<u>\$ 5,953,610</u>

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

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net Change in Fund Balances - Governmental Funds \$ 7,512,615

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. 719

Governmental funds report penalty and interest revenue on property taxes and standby fees when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest and standby fees are assessed. 965

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. (271,029)

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. 423,964

Governmental funds report bond premiums as other financing sources in the year received. However, in the Statement of Net Position, bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities. (4,779)

Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. 210,000

Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. (98,717)

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position. (7,750,000)

Change in Net Position - Governmental Activities \$ 23,738

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



**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1. CREATION OF DISTRICT**

Montgomery County Utility District No. 4 (the “District”) was created effective May 24, 1971, by an act of the 62<sup>nd</sup> Legislature of the State of Texas, Regular Session, 1971. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The Board of Directors held its first meeting on June 6, 1972, and the first bonds were sold on September 7, 1978.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

The 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.

The District has entered into a joint venture with Montgomery County Utility District No. 3 (“District No. 3”) for the construction and operation of joint wastewater treatment facilities. Oversight responsibility of the facilities is by District No. 3. Additional disclosure is provided in Note 8.

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.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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

Financial Statement Presentation (Continued)

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets sets 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.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has three major governmental funds.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of 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.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include 2013 taxes collected during the period October 1, 2013, to December 31, 2014. In addition, taxes collected from January 1, 2014, to December 31, 2014, for the 2012 and prior tax levies are included in revenue. The 2014 tax levy has been fully deferred to finance the District's 2015 fiscal year operations.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of December 31, 2014, the Debt Service Fund owes the General Fund \$589,070 for maintenance tax collections and the Capital Projects Fund owes the General Fund \$22,741 for construction costs.

Capital Assets

Capital assets, which 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 asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

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

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
All Other Equipment	5-20

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**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 determined that 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. The District’s fund balances are classified using the following hierarchy:

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

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

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

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**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 and 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. LONG-TERM DEBT**

	Series 2011	Series 2014
Amount Outstanding - December 31, 2014	\$ 5,345,000	\$ 7,750,000
Interest Rates	3.00% - 5.50%	3.00% - 5.00%
Maturity Dates - Serially Beginning/Ending	March 1, 2015/2030	March 1, 2015/2039
Interest Payment Dates	March 1, September 1	March 1, September 1
Callable Dates	March 1, 2019*	March 1, 2022*

\* Or on any date thereafter, callable at par plus unpaid accrued interest in whole or in part in inverse order of maturity in integral multiples of \$5,000 at the option of the District. Series 2011 term bonds due March 1, 2026, March 1, 2028, and March 1, 2030 are subject to mandatory redemption beginning March 1, 2025, March 1, 2027, and March 1, 2029, respectively. Series 2014 term bonds due March 1, 2031, March 1, 2033, March 1, 2035, March 1, 2037, and March 1, 2039 are subject to mandatory redemption beginning March 1, 2030, March 1, 2032, March 1, 2034, March 1, 2036, and March 1, 2038, respectively.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 3. LONG-TERM DEBT (Continued)**

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2014:

	January 1, 2014	Additions	Retirements	December 31, 2014
Bonds Payable	\$ 5,555,000	\$ 7,750,000	\$ 210,000	\$ 13,095,000
Unamortized Bond Premiums		4,779	161	4,618
Bonds Payable, net	<u>\$ 5,555,000</u>	<u>\$ 7,754,779</u>	<u>\$ 210,161</u>	<u>\$ 13,099,618</u>
		Amount Due Within One Year		\$ 390,000
		Amount Due After One Year		12,709,618
		Bonds Payable, net		<u>\$ 13,099,618</u>

As of December 31, 2014, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 390,000	\$ 523,498	\$ 913,498
2016	410,000	502,372	912,372
2017	435,000	480,060	915,060
2018	450,000	456,685	906,685
2019	475,000	432,248	907,248
2020-2024	2,760,000	1,865,450	4,625,450
2025-2029	3,535,000	1,306,649	4,841,649
2030-2034	2,330,000	687,625	3,017,625
2035-2039	2,310,000	254,050	2,564,050
	<u>\$ 13,095,000</u>	<u>\$ 6,508,637</u>	<u>\$ 19,603,637</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount and are further payable from the net system revenues of the District.

During the year ended December 31, 2014, the District levied an ad valorem debt service tax rate of \$0.06 per \$100 of assessed valuation, which resulted in a tax levy of \$235,591 on the adjusted taxable valuation of \$392,620,425 for the 2014 tax year. The bond orders require the District to 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. See Note 7 for the maintenance tax levy.

As of December 31, 2014, the District had authorized but unissued tax bonds in the amount of \$13,250,000 and refunding bonds authorization of \$5,243,683.

The District's tax calendar is as follows:

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 3. LONG-TERM DEBT (Continued)**

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

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

- A. The bond order states that so long as any of the bonds or coupons remain outstanding, the District covenants that it will at all times keep insured such parts of the system as are customarily insured by municipal corporations and political sub-divisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risks, accidents or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political sub-divisions.
- B. The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to each nationally recognized municipal securities information depository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.
- C. The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of the issue.

**NOTE 5. 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



**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Deposits (Continued)

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 \$10,675,996 and the bank balance was \$10,583,193. Of the bank balance, \$1,955,145 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third-party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2014, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 242,979	\$ 1,455,145	\$ 1,698,124
DEBT SERVICE FUND	716,727		716,727
CAPITAL PROJECTS FUND	8,261,145		8,261,145
<b>TOTAL DEPOSITS</b>	<b>\$ 9,220,851</b>	<b>\$ 1,455,145</b>	<b>\$ 10,675,996</b>

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.

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 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

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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.

All investments are recorded 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 the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of pool shares.

As of December 31, 2014, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 209,686	\$ 209,686	\$	\$	\$
Certificates of Deposit	1,455,145	1,455,145			
<u>DEBT SERVICE FUND</u>					
TexPool	711,489	711,489			
<b>TOTAL INVESTMENTS</b>	<u>\$ 2,376,320</u>	<u>\$ 2,376,320</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2014, the investment rating for TexPool was AAAM. 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 positions can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2014 is as follows:

	January 1, 2014	Increases	Decreases	December 31, 2014
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 60,403		\$ 72,904	\$ 60,403
Construction in Progress		423,964		351,060
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 60,403</u>	<u>\$ 423,964</u>	<u>\$ 72,904</u>	<u>\$ 411,463</u>
<b>Capital Assets Subject to Depreciation</b>				
Water System	\$ 5,039,722			\$ 5,039,722
Wastewater System	7,181,325	72,904		7,254,229
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 12,221,047</u>	<u>\$ 72,904</u>	<u>\$ -0-</u>	<u>\$ 12,293,951</u>
<b>Accumulated Depreciation</b>				
Water System	\$ 1,538,454	\$ 106,930	\$ -	\$ 1,645,384
Wastewater System	2,289,771	164,099	-	2,453,870
<b>Total Accumulated Depreciation</b>	<u>\$ 3,828,225</u>	<u>\$ 271,029</u>	<u>\$ -0-</u>	<u>\$ 4,099,254</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 8,392,822</u>	<u>\$ (198,125)</u>	<u>\$ -0-</u>	<u>\$ 8,194,697</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 8,453,225</u>	<u>\$ 225,839</u>	<u>\$ 72,904</u>	<u>\$ 8,606,160</u>

**NOTE 7. MAINTENANCE TAX**

On April 1, 1978, 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. During the current fiscal year the District levied an ad valorem maintenance tax rate of \$0.32 per \$100 of assessed valuation, which resulted in a tax levy of \$1,256,488 on the adjusted taxable valuation of \$392,620,425 for the 2014 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. The 2014 tax levy has been fully deferred.

**NOTE 8. CONTRACTS WITH OTHER DISTRICTS**

On October 22, 1979, the District amended the water supply and sanitary sewer service contract with 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

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 8. CONTRACTS WITH OTHER DISTRICTS (Continued)**

was completed and the districts began sharing operating costs. On April 18, 2011, the districts agreed to commence construction of a new wastewater treatment plant at the shared expense of the districts.

The districts jointly own the 950,000 gallons-per-day plant. 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 fiscal year, the District was billed \$257,927 for its share of operating costs and had an advance for wastewater treatment plant operations of \$11,570 with District No. 3.

The following summary data of the joint wastewater treatment plant is presented for the fiscal year ended December 31, 2014. A copy of the financial statements for District No. 3 can be obtained by contacting Norton Rose Fulbright US LLP, 1301 McKinney, Suite 5100, Houston, TX 77010-3095.

Total Assets	\$ 150,674
Total Liabilities	<u>110,674</u>
Total Fund Balance	<u>\$ 40,000</u>
Total Revenues	\$ 650,031
Total Expenditures	(650,031)
Increase in Operating Reserves	<u>22,838</u>
Net Change in Fund Balance	\$ 22,838
Beginning Fund Balance	<u>17,162</u>
Ending Fund Balance	<u>\$ 40,000</u>

**NOTE 9. LONE STAR GROUNDWATER CONSERVATION DISTRICT**

The District is located within the boundaries of the Lone Star Groundwater Conservation District (the "Conservation District"). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 2362 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Conservation District for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 9. LONE STAR GROUNDWATER CONSERVATION DISTRICT**  
(Continued)

groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Conservation District is overseeing that its participants comply with subsidence district pumpage requirements. The District is required to convert its water supply to surface water over a period of time.

The Conservation District charges a fee, currently \$0.06 per 1,000 gallons, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Conservation District, unless exempted. This fee enables the Conservation District to fulfill its purpose and regulatory functions. The District recorded an expenditure of \$9,828 for permit fees assessed during the current fiscal year.

**NOTE 10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT**

On February 22, 2013, the District entered into a Strategic Partnership Agreement (“SPA”) with the City of Conroe, Texas (the “City”) pursuant to Texas Local Government Code, Section 43.0751, which SPA provides for: (1) annexation of the territory of the District by the City for full purposes effective December 31, 2014; (2) continuation of the District, after annexation, as a “limited district” with powers and functions provided by law, including water, wastewater, storm sewer, and solid waste services, and also including the power to levy taxes and collect user fees; (3) provision of fire, police, and other municipal services by the City; (4) payments by the City to the District, including payments to defray debt service related to the Bonds; (5) binding each owner and future owners of land included within the territory of the District; and (6) other matters.

**NOTE 12. BOND SALE AND ESCROW REQUIREMENTS**

On February 27, 2014, the District closed on the sale of its \$7,750,000 Series 2014 Waterworks and Sewer Combination Unlimited Tax and Revenue Bonds. Proceeds from the bonds will be used to fund construction and engineering costs related to water plant no. 1 improvements, a water plant no. 1 Hydropneumatic Tank Addition, water plant no. 1 recoating, water plant no. 1 booster pump addition, Catahoula Aquifer water well construction, a 500,000 gallon Elevated Storage Tank Installation, the District’s pro-rata share of District No. 3 Ground Storage Tank No. 1 recoating and roof modifications, wastewater collection line cleaning, televising and

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 12. BOND SALE AND ESCROW REQUIREMENTS (Continued)**

repairs, Cove Point wastewater collection line rehabilitation, Lakeview Village wastewater collection line rehabilitation, Bay Point lift station improvements, April Villas lift station improvements, lift station generator installments, storm water collection line inspection and repairs; and pay the land acquisition costs for water plant no. 1. Additional proceeds were used to cover issuance costs of the bonds.

The Commission required \$2,935,000 of the Series 2014 Bonds to be escrowed. As of December 31, 2014, this amount remains in escrow.

**NOTE 13. PRIOR PERIOD ADJUSTMENTS**

In the prior fiscal year, the District did not correctly defer 2013 tax revenue and the interfund liability from the Debt Service Fund to the General Fund was incorrectly calculated. Additionally, the District carried its investment in District No. 3's wastewater treatment plant at full cost instead of a net depreciated cost. The effect of these changes are as follows:

Net Position, January 1, 2014	\$ 8,412,108
Effect of Adjustments	<u>(2,482,236)</u>
Net Position, January 1, 2014, As Adjusted	<u>\$ 5,929,872</u>
Fund Balance, General Fund, January 1, 2014	\$ 2,846,026
Effect of Adjustments	<u>(1,301,446)</u>
Adjusted Fund Balance, General Fund, January 1, 2014	<u>\$ 1,544,580</u>
Fund Balance, Debt Service Fund, January 1, 2014	\$ (100,004)
Effect of Adjustments	<u>442,387</u>
Adjusted Fund Balance, Debt Service Fund, January 1, 2014, As Adjusted	<u>\$ 342,383</u>

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2014**





**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Property Taxes	\$ 870,000	\$ 561,696	\$ (308,304)
Water Service	535,000	499,620	(35,380)
Wastewater Service	607,000	605,641	(1,359)
Groundwater Reduction Plan Fees	36,200	60,990	24,790
Penalty and Interest	10,500	10,490	(10)
Tap Connection and Inspection Fees	15,000	67,750	52,750
Covenant Revenue	7,200	13,940	6,740
Investment Revenues	10,880	3,516	(7,364)
Miscellaneous Revenues	<u>37,200</u>	<u>188,205</u>	<u>151,005</u>
<b>TOTAL REVENUES</b>	<u>\$ 2,128,980</u>	<u>\$ 2,011,848</u>	<u>\$ (117,132)</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 189,300	\$ 291,041	\$ (101,741)
Contracted Services	330,900	305,432	25,468
Purchased Wastewater Service	216,500	257,927	(41,427)
Utilities	14,300	15,511	(1,211)
Repairs and Maintenance	293,100	574,257	(281,157)
Other	218,973	246,146	(27,173)
Capital Outlay	<u>82,000</u>	<u>184,981</u>	<u>(102,981)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,345,073</u>	<u>\$ 1,875,295</u>	<u>\$ (530,222)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 783,907	\$ 136,553	\$ (647,354)
<b>FUND BALANCE - JANUARY 1, 2014</b>	<u>1,544,580</u>	<u>1,544,580</u>	<u>                    </u>
<b>FUND BALANCE - DECEMBER 31, 2014</b>	<u>\$ 2,328,487</u>	<u>\$ 1,681,133</u>	<u>\$ (647,354)</u>

See accompanying independent auditor's report.

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**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**

**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**DECEMBER 31, 2014**





**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
SERVICES AND RATES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤¾"	<u>1,446</u>	<u>1,419</u>	x 1.0	<u>1,419</u>
1"	<u>60</u>	<u>59</u>	x 2.5	<u>148</u>
1½"	<u>3</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>9</u>	<u>9</u>	x 8.0	<u>72</u>
3"	<u>2</u>	<u>2</u>	x 15.0	<u>30</u>
4"	_____	_____	x 25.0	_____
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>1,521</u></u>	<u><u>1,493</u></u>		<u><u>1,734</u></u>
Total Wastewater Connections	<u><u>1,498</u></u>	<u><u>1,470</u></u>	x 1.0	<u><u>1,470</u></u>

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

Gallons billed to customers: 177,837,000\*      Water Accountability Ratio: 96.6%  
(Gallons billed/Gallons pumped)

\* The District is part of an integrated system with Montgomery County Utility District No. 3. Total water pumped for the integrated system was 296,248,000 gallons. District No. 3 billed its customers for 108,306,000 gallons of usage.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
SERVICES AND RATES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**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 \_\_\_\_\_ Partly \_\_\_\_\_ Not at all X

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

Entirely X Partly \_\_\_\_\_ Not at all \_\_\_\_\_

ETJ in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes \_\_\_\_\_ No X

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

PROFESSIONAL FEES:	
Auditing	\$ 9,500
Engineering	73,273
Legal	<u>208,268</u>
TOTAL PROFESSIONAL FEES	<u>\$ 291,041</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Wastewater Service	<u>\$ 257,927</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 33,347
Operations and Billing	76,073
Consultant	<u>2,000</u>
TOTAL CONTRACTED SERVICES	<u>\$ 111,420</u>
UTILITIES:	
Electricity	\$ 14,442
Telephone	<u>1,069</u>
TOTAL UTILITIES	<u>\$ 15,511</u>
REPAIRS AND MAINTENANCE	<u>\$ 574,257</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 24,450
Election Costs	13,092
Insurance	22,259
Legal Notices	763
Office Supplies and Postage	18,587
Payroll Taxes	1,870
Travel and Meetings	<u>793</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 81,814</u>

See accompanying independent auditor's report.



**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

CAPITAL OUTLAY:	
Capitalized Assets	\$ 184,981
Expenditures Not Capitalized	<u>                    </u>
TOTAL CAPITAL OUTLAY:	<u>\$ 184,981</u>
TAP CONNECTIONS	<u>\$ 20,450</u>
SOLID WASTE DISPOSAL	<u>\$ 194,012</u>
OTHER EXPENDITURES:	
Chemicals	\$ 96,771
Laboratory Fees	2,784
Permit Fees	16,837
Reconnection Fees	13,828
Inspection Fees	3,937
Regulatory Assessment	5,213
Other	<u>4,512</u>
TOTAL OTHER EXPENDITURES	<u>\$ 143,882</u>
TOTAL EXPENDITURES	<u><u>\$ 1,875,295</u></u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
INVESTMENTS  
DECEMBER 31, 2014**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 209,686	\$
Certificate of Deposit	XXXX4348	0.20%	07/01/15	150,000	48
Certificate of Deposit	XXXX1906	0.40%	07/27/15	150,000	102
Certificate of Deposit	XXXX1004	0.25%	02/10/15	95,000	12
Certificate of Deposit	XXXX0133	0.30%	04/22/15	95,145	100
Certificate of Deposit	XXXX6537	0.20%	03/11/15	95,000	88
Certificate of Deposit	XXXX7895	0.20%	02/17/15	95,000	116
Certificate of Deposit	XXXX5477	0.45%	08/25/15	150,000	117
Certificate of Deposit	XXXX6639	0.30%	05/11/15	190,000	170
Certificate of Deposit	XXXX4478	0.30%	01/15/15	240,000	501
Certificate of Deposit	XXXX1667	0.35%	06/22/15	95,000	62
Certificate of Deposit	XXXX8938	0.30%	01/29/15	<u>100,000</u>	<u>171</u>
TOTAL GENERAL FUND				<u>\$ 1,664,831</u>	<u>\$ 1,487</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	<u>\$ 711,489</u>	<u>\$ -0-</u>
TOTAL - ALL FUNDS				<u>\$ 2,376,320</u>	<u>\$ 1,487</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JANUARY 1, 2014	\$ 291,240		\$ 468,807	
Adjustments to Beginning Balance	<u>(4,000)</u>	\$ 287,240	<u>(5,094)</u>	\$ 463,713
Original 2014 Tax Levy	\$ 1,257,607		\$ 235,801	
Adjustment to 2014 Tax Levy	<u>(1,119)</u>	<u>1,256,488</u>	<u>(210)</u>	<u>235,591</u>
TOTAL TO BE ACCOUNTED FOR		\$ 1,543,728		\$ 699,304
 TAX COLLECTIONS:				
Prior Years	\$ 247,409		\$ 425,605	
Current Year	<u>698,459</u>	<u>945,868</u>	<u>130,961</u>	<u>556,566</u>
 TAXES RECEIVABLE -				
DECEMBER 31, 2014		<u>\$ 597,860</u>		<u>\$ 142,738</u>
 TAXES RECEIVABLE BY YEAR:				
2014		\$ 558,029		\$ 104,630
2013		4,800		8,319
2012		4,945		3,592
2011		5,537		4,908
2010		5,083		4,187
2009		4,056		3,535
2008		2,541		2,755
2007 and prior		<u>12,869</u>		<u>10,812</u>
TOTAL		<u>\$ 597,860</u>		<u>\$ 142,738</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>PROPERTY VALUATIONS:</b>				
Land	\$ 72,911,379	\$ 78,222,995	\$ 69,918,346	\$ 69,918,346
Improvements	335,641,585	325,242,980	290,713,123	290,713,123
Personal Property	5,600,536	8,234,000	7,359,826	7,359,826
Exemptions	<u>(21,533,075)</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL PROPERTY VALUATIONS</b>	<u>\$ 392,620,425</u>	<u>\$ 411,699,975</u>	<u>\$ 367,991,295</u>	<u>\$ 367,991,295</u>
<b>TAX RATES PER \$100 VALUATION:</b>				
Debt Service	\$ 0.06	\$ 0.2375	\$ 0.2375	\$ 0.2300
Maintenance	<u>0.32</u>	<u>0.1725</u>	<u>0.1725</u>	<u>0.2595</u>
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<u>\$ 0.38</u>	<u>\$ 0.4100</u>	<u>\$ 0.4100</u>	<u>\$ 0.4895</u>
<b>ADJUSTED TAX LEVY*</b>	<u>\$ 1,492,079</u>	<u>\$ 1,541,866</u>	<u>\$ 1,517,213</u>	<u>\$ 1,801,317</u>
<b>PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED</b>	<u>55.59 %</u>	<u>99.15 %</u>	<u>99.44 %</u>	<u>99.42 %</u>

\* Based upon adjusted tax at time of audit for the period in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on April 1, 1978.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2014**

S E R I E S - 2 0 1 1				
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total	
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
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
	\$ 5,345,000	\$ 1,945,893	\$	7,290,893

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2014**

S E R I E S - 2 0 1 4			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2015	\$ 170,000	\$ 306,463	\$ 476,463
2016	180,000	297,712	477,712
2017	190,000	288,463	478,463
2018	195,000	278,837	473,837
2019	205,000	268,838	473,838
2020	215,000	259,412	474,412
2021	225,000	250,613	475,613
2022	235,000	241,412	476,412
2023	245,000	231,813	476,813
2024	255,000	223,087	478,087
2025	270,000	215,213	485,213
2026	280,000	206,962	486,962
2027	295,000	197,969	492,969
2028	310,000	187,750	497,750
2029	320,000	176,725	496,725
2030	335,000	164,425	499,425
2031	355,000	150,625	505,625
2032	370,000	136,125	506,125
2033	385,000	121,025	506,025
2034	405,000	105,225	510,225
2035	420,000	88,725	508,725
2036	440,000	70,975	510,975
2037	460,000	51,850	511,850
2038	485,000	31,769	516,769
2039	505,000	10,731	515,731
	\$ 7,750,000	\$ 4,562,744	\$ 12,312,744

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2014**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2015	\$ 390,000	\$ 523,498	\$ 913,498
2016	410,000	502,372	912,372
2017	435,000	480,060	915,060
2018	450,000	456,685	906,685
2019	475,000	432,248	907,248
2020	500,000	411,122	911,122
2021	525,000	393,361	918,361
2022	550,000	374,353	924,353
2023	580,000	353,773	933,773
2024	605,000	332,841	937,841
2025	640,000	311,454	951,454
2026	670,000	288,478	958,478
2027	705,000	263,627	968,627
2028	745,000	236,296	981,296
2029	775,000	206,794	981,794
2030	815,000	174,625	989,625
2031	355,000	150,625	505,625
2032	370,000	136,125	506,125
2033	385,000	121,025	506,025
2034	405,000	105,225	510,225
2035	420,000	88,725	508,725
2036	440,000	70,975	510,975
2037	460,000	51,850	511,850
2038	485,000	31,769	516,769
2039	505,000	10,731	515,731
	<u>\$ 13,095,000</u>	<u>\$ 6,508,637</u>	<u>\$ 19,603,637</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
CHANGE IN LONG-TERM BOND DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2014**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2014
Montgomery County Utility District No. 4 Unlimited Tax Bonds - Series 2011	\$ 5,755,000	\$ 5,555,000
Montgomery County Utility District No. 4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2014	<u>7,750,000</u>	<u>                    </u>
<b>TOTAL</b>	<u>\$ 13,505,000</u>	<u>\$ 5,555,000</u>
Bond Authority:	Tax Bonds*	Refunding Bonds
Amount Authorized by Voters	\$ 35,160,000	\$ 14,160,000
Amount Issued	<u>21,910,000</u>	<u>8,916,317</u>
Remaining to be Issued	<u>\$ 13,250,000</u>	<u>\$ 5,243,683</u>
Debt Service Fund cash, investment and cash with tax assessor/collector balances as of December 31, 2014:		<u>\$ 1,428,216</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 784,145</u>

\* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See Note 3 for interest rate, interest payment dates and maturity dates.

See accompanying independent auditor's report.



<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2014</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 210,000	\$ 228,860	\$ 5,345,000	The Bank Of New York Mellon Trust Company, N.A. Dallas, TX
<u>7,750,000</u>		<u>158,809</u>	<u>7,750,000</u>	The Bank Of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 7,750,000</u>	<u>\$ 210,000</u>	<u>\$ 387,669</u>	<u>\$ 13,095,000</u>	

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amount		
	2014	2013	2012
<b>REVENUES</b>			
Property Taxes	\$ 561,696	\$ 735,422	\$ 850,818
Water and Wastewater Service	1,105,261	1,120,125	1,169,804
Groundwater Reduction Plan Fees	60,990	44,987	46,518
Penalty and Interest	10,490	14,891	11,893
Tap Connection and Inspection Fees	67,750	23,205	44,070
Covenant Revenue	13,940	7,315	5,210
Investment Revenues	3,516	5,673	8,157
Miscellaneous Revenues	188,205	15,780	14,753
<b>TOTAL REVENUES</b>	<b>\$ 2,011,848</b>	<b>\$ 1,967,398</b>	<b>\$ 2,151,223</b>
<b>EXPENDITURES</b>			
Professional Fees	\$ 291,041	\$ 250,322	\$ 305,602
Contracted Services	305,432	112,759	119,454
Purchased Water and Wastewater Service	257,927	213,631	175,491
Utilities	15,511	13,187	12,006
Repairs and Maintenance	574,257	685,188	482,163
Other	246,146	585,286	723,047
Capital Outlay	184,981	231,435	524,648
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,875,295</b>	<b>\$ 2,091,808</b>	<b>\$ 2,342,411</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 136,553</b>	<b>\$ (124,410)</b>	<b>\$ (191,188)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Refund of Prior Years Taxes	\$	\$	\$ (22,173)
Property Settlement			109,653
Capital Contributions			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ 87,480</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 136,553</b>	<b>\$ (124,410)</b>	<b>\$ (103,708)</b>
<b>BEGINNING FUND BALANCE</b>	1,544,580	2,970,436	3,074,144
<b>PRIOR PERIOD ADJUSTMENTS</b>		(1,301,446)	
<b>ENDING FUND BALANCE</b>	<b>\$ 1,681,133</b>	<b>\$ 1,544,580</b>	<b>\$ 2,970,436</b>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2011	2010	2014	2013	2012	2011	2010
\$ 1,577,608	\$ 933,309	27.9 %	37.3 %	39.5 %	44.1 %	45.1 %
1,889,876	1,030,605	54.9	56.9	54.4	52.8	49.8
		3.0	2.3	2.2		
17,365	9,162	0.5	0.8	0.6	0.5	0.4
43,990	43,646	3.4	1.2	2.0	1.2	2.1
12,518	14,365	0.7	0.4	0.2	0.3	0.7
19,632	19,183	0.2	0.3	0.4	0.5	0.9
20,074	20,518	9.4	0.8	0.7	0.6	1.0
<u>\$ 3,581,063</u>	<u>\$ 2,070,788</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 136,534	\$ 65,012	14.5 %	12.7 %	14.2 %	3.8 %	3.1 %
162,559	103,926	15.2	5.7	5.6	4.5	5.0
348,466	288,915	12.8	10.9	8.1	9.7	14.0
19,190	11,900	0.8	0.7	0.6	0.5	0.6
1,014,823	284,058	28.5	34.8	22.4	28.3	13.7
606,216	345,300	12.2	29.7	33.6	16.9	16.7
<u>1,199,463</u>	<u>346,092</u>	<u>9.2</u>	<u>11.8</u>	<u>24.4</u>	<u>33.5</u>	<u>16.7</u>
<u>\$ 3,487,251</u>	<u>\$ 1,445,203</u>	<u>93.2 %</u>	<u>106.3 %</u>	<u>108.9 %</u>	<u>97.2 %</u>	<u>69.8 %</u>
<u>\$ 93,812</u>	<u>\$ 625,585</u>	<u>6.8 %</u>	<u>(6.3) %</u>	<u>(8.9) %</u>	<u>2.8 %</u>	<u>30.2 %</u>
\$	\$					
<u>90,000</u>	<u></u>					
<u>\$ 90,000</u>	<u>\$ - 0 -</u>					
\$ 183,812	\$ 625,585					
3,992,103	3,366,518					
<u>(1,101,771)</u>	<u></u>					
<u>\$ 3,074,144</u>	<u>\$ 3,992,103</u>					

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amount		
	2014	2013	2012
<b>REVENUES</b>			
Property Taxes	\$ 970,377	\$ 851,301	\$ 681,073
Penalty and Interest	8,952	4,975	4,074
Investment Revenues	257	254	394
Miscellaneous Revenues	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL REVENUES</b>	<u>\$ 979,586</u>	<u>\$ 856,530</u>	<u>\$ 685,541</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 14,865	\$ 11,556	\$ 12,527
Debt Service Principal	210,000	200,000	795,000
Debt Service Interest and Fees	<u>388,919</u>	<u>240,802</u>	<u>322,291</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 613,784</u>	<u>\$ 452,358</u>	<u>\$ 1,129,818</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 365,802</u>	<u>\$ 404,172</u>	<u>\$ (444,277)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Voided Checks for Prior Years Expenditures	\$	\$	19,102
Refund of Prior Years Taxes			
Long-Term Debt Issued	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 19,102</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 365,802	\$ 404,172	\$ (425,175)
<b>BEGINNING FUND BALANCE</b>	342,383	(504,176)	(79,001)
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>          </u>	<u>442,387</u>	<u>          </u>
<b>ENDING FUND BALANCE</b>	<u>\$ 708,185</u>	<u>\$ 342,383</u>	<u>\$ (504,176)</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>1,493</u>	<u>1,468</u>	<u>1,459</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>1,470</u>	<u>1,445</u>	<u>1,436</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2011	2010	2014	2013	2012	2011	2010
\$ 1,336,045	\$ 814,829	99.1 %	99.4 %	99.3 %	99.3 %	97.3 %
9,246	21,007	0.9	0.6	0.6	0.7	2.5
499	727			0.1		0.1
	708					0.1
<u>\$ 1,345,790</u>	<u>\$ 837,271</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 20,203	\$ 13,349	1.5 %	1.3 %	1.8 %	1.5 %	1.6 %
770,000	745,000	21.4	23.4	116.0	57.2	89.0
<u>48,553</u>	<u>78,172</u>	<u>39.7</u>	<u>28.1</u>	<u>47.0</u>	<u>3.6</u>	<u>9.3</u>
<u>\$ 838,756</u>	<u>\$ 836,521</u>	<u>62.6 %</u>	<u>52.8 %</u>	<u>164.8 %</u>	<u>62.3 %</u>	<u>99.9 %</u>
<u>\$ 507,034</u>	<u>\$ 750</u>	<u>37.4 %</u>	<u>47.2 %</u>	<u>(64.8) %</u>	<u>37.7 %</u>	<u>0.1 %</u>
\$ (7,139)	\$ (15,910)					
<u>302,822</u>						
<u>\$ 295,683</u>	<u>\$ (15,910)</u>					
\$ 802,717	\$ (15,160)					
(881,718)	(866,558)					
<u>\$ (79,001)</u>	<u>\$ (881,718)</u>					
<u>1,458</u>	<u>1,432</u>					
<u>1,435</u>	<u>1,409</u>					

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
DECEMBER 31, 2014**

District Mailing Address - Montgomery County Utility District No. 4  
c/o Coats, Rose, Yale, Ryman & Lee, P.C.  
9 Greenway Plaza, Suite 1100  
Houston, TX 77046

District Telephone Number - (713) 651-0111

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2014	Expense Reimbursements for the year ended December 31, 2014	<u>Title</u>
Frederick Stow	05/2012 05/2016 (Elected)	\$ -0-	\$ -0-	President
J. Frank Haasbeek	05/2014 05/2018 (Elected)	\$ 4,950	\$ 84	Vice President/ Investment Officer
Gary S. North	05/2014 05/2018 (Elected)	\$ 7,200	\$ -0-	Secretary/ Treasurer
Carl D. Clay	05/2012 05/2016 (Elected)	\$ 7,200	\$ -0-	Director
Marvin Carter	05/2012 05/2016 (Elected)	\$ 5,100	\$ -0-	Director

Notes: No Director has any significant 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): May 25, 2012.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060). Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**DECEMBER 31, 2014**

	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2014</u>	<u>Title</u>
Coats, Rose, Yale, Ryman & Lee, P.C.	02/25/10	\$ 445,478	Attorney
David L. Merritt, P.C.	09/18/96	\$ 9,500	Auditor
Municipal Accounts & Consulting, LP	01/01/95	\$ 36,388	Bookkeeper
Linebarger Goggan Blair & Sampson, LLP		\$ 2,265	Delinquent Tax Attorney
Bleyl & Associates	06/18/02	\$ 114,816	Engineer
RBC Capital Markets, LLC	09/15/96	\$ 157,513	Financial Advisor
Hays Utility North Corporation	04/01/95	\$ 903,498	Operator
J.R. Moore, Jr.	03/01/95	\$ 350	Tax Assessor/ Collector

See accompanying independent auditor's report.

