

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2015

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

111 Congress Avenue
Suite 400
Austin, Texas 78701
(512) 610-2209
www.mgsbpllc.com

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, 2015, 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, 2015, 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 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 28, 2016

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2015. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental 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. 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 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, 2015**

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, and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's assets exceeded liabilities and deferred inflows of resources by \$7,406,202 as of December 31, 2015. 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, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

| | <u>Summary of Changes in the Statement of Net Position</u> | | |
|---|--|----------------------|---|
| | <u>2015</u> | <u>2014</u> | <u>Change Positive (Negative)</u> |
| Current and Other Assets | \$ 11,490,986 | \$ 12,622,249 | \$ (1,131,263) |
| Capital Assets (Net of Accumulated Depreciation) | <u>9,542,992</u> | <u>8,606,160</u> | <u>936,832</u> |
| Total Assets | <u>\$ 21,033,978</u> | <u>\$ 21,228,409</u> | <u>\$ (194,431)</u> |
| Long-Term Liabilities | \$ 12,299,427 | \$ 12,709,618 | \$ 410,191 |
| Other Liabilities | <u>982,788</u> | <u>1,073,102</u> | <u>90,314</u> |
| Total Liabilities | <u>\$ 13,282,215</u> | <u>\$ 13,782,720</u> | <u>\$ 500,505</u> |
| Deferred Inflows of Resources | <u>\$ 345,561</u> | <u>\$ 1,492,079</u> | <u>\$ 1,146,518</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ 4,093,693 | \$ 3,552,178 | \$ 541,515 |
| Restricted | (98,351) | 576,154 | (674,505) |
| Unrestricted | <u>3,410,860</u> | <u>1,825,278</u> | <u>1,585,582</u> |
| Total Net Position | <u>\$ 7,406,202</u> | <u>\$ 5,953,610</u> | <u>\$ 1,452,592</u> |

The following table provides a summary of the District's operations for the years ending December 31, 2015 and December 31, 2014. The District's net position increased by \$1,452,592.

| | <u>Summary of Changes in the Statement of Activities</u> | | |
|---------------------------------|--|---------------------|---|
| | <u>2015</u> | <u>2014</u> | <u>Change Positive (Negative)</u> |
| Revenues: | | | |
| Property Taxes | \$ 1,488,166 | \$ 1,532,792 | \$ (44,626) |
| Charges for Services | 1,222,194 | 1,268,348 | (46,154) |
| Other Revenues | <u>1,090,929</u> | <u>204,024</u> | <u>886,905</u> |
| Total Revenues | <u>\$ 3,801,289</u> | <u>\$ 3,005,164</u> | <u>\$ 796,125</u> |
| Expenses for Services | <u>2,348,697</u> | <u>2,981,426</u> | <u>632,729</u> |
| Change in Net Position | <u>\$ 1,452,592</u> | <u>\$ 23,738</u> | <u>\$ 1,428,854</u> |
| Net Position, Beginning of Year | <u>5,953,610</u> | <u>5,929,872</u> | <u>23,738</u> |
| Net Position, End of Year | <u>\$ 7,406,202</u> | <u>\$ 5,953,610</u> | <u>\$ 1,452,592</u> |

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2015, were \$10,571,620, an increase of \$136,666 from the prior year.

The General Fund fund balance increased by \$1,601,257, primarily due to tax and service revenues exceeding the cost of operating and maintaining the District's system as well as the receipt of contract revenues from the City of Conroe, Texas and the sale of land.

The Debt Service Fund fund balance decreased by \$679,083, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$785,508, primarily due to bond proceeds being expended on capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the General Fund budget during the fiscal year. Actual revenue was \$1,334,603 more than budgeted revenue primarily due to higher property tax and water service revenues than were anticipated, as well as contract revenues and the sale of land which were not budgeted for. Actual expenditures were \$23,366 more than budgeted expenditures, primarily due to higher than anticipated capital expenditures, contracted services and utilities costs, which were offset by lower than anticipated professional fees, purchased wastewater costs and miscellaneous costs.

CAPITAL ASSETS

Capital assets as of December 31, 2015, total \$9,542,992 (net of accumulated depreciation) and include land, as well as the water and wastewater systems. Significant capital asset activity during the current fiscal year included wastewater treatment plant and biological nutrient removal; wastewater treatment plant fence and paving; sanitary sewer rehabilitation; pressure reducing valve installation; storm drainage rehabilitation; water plant no. 1 methane detection system; lift station rehabilitation; and water plant no. 2 expansion. Work in progress at year-end included the storm drainage improvements.

Capital Assets At Year-End, Net of Accumulated Depreciation

| | 2015 | 2014 | Change Positive (Negative) |
|--|---------------------|---------------------|----------------------------------|
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | \$ 134,299 | \$ 60,403 | \$ 73,896 |
| Construction in Progress | 214,183 | 351,060 | (136,877) |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Water System | 3,397,035 | 3,394,338 | 2,697 |
| Wastewater System | 5,797,475 | 4,800,359 | 997,116 |
| Total Net Capital Assets | <u>\$ 9,542,992</u> | <u>\$ 8,606,160</u> | <u>\$ 936,832</u> |

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$12,705,000. The changes in the debt position of the District during the fiscal year ended December 31, 2015, are summarized as follows:

| | |
|--------------------------------------|----------------------|
| Bond Debt Payable, January 1, 2015 | \$ 13,095,000 |
| Less: Bond Principal Paid | <u>390,000</u> |
| Bond Debt Payable, December 31, 2015 | <u>\$ 12,705,000</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, 2015

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| ASSETS | | |
| Cash | \$ 112,127 | \$ 145,077 |
| Investments | 3,243,192 | 21,271 |
| Receivables: | | |
| Property Taxes | 221,081 | 35,208 |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts | 127,971 | |
| Accrued Interest | 3,775 | |
| Other | 201,322 | |
| Due from Other Funds | 212,059 | |
| Prepaid Costs | 8,053 | |
| Advance for Joint Wastewater Treatment | | |
| Plant Operations | 20,000 | |
| Land | | |
| Construction in Progress | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 4,149,580 | \$ 201,556 |

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> |
|----------------------------------|----------------------|---------------------|--------------------------------------|
| \$ 7,343,504 | \$ 7,600,708 | \$ | \$ 7,600,708 |
| | 3,264,463 | | 3,264,463 |
| | 256,289 | | 256,289 |
| | 127,971 | 8,405 | 8,405 |
| | 3,775 | | 127,971 |
| | 201,322 | | 3,775 |
| | 212,059 | (212,059) | 201,322 |
| | 8,053 | | 8,053 |
| | 20,000 | | 20,000 |
| | | 134,299 | 134,299 |
| | | 214,183 | 214,183 |
| | | <u>9,194,510</u> | <u>9,194,510</u> |
| <u>\$ 7,343,504</u> | <u>\$ 11,694,640</u> | <u>\$ 9,339,338</u> | <u>\$ 21,033,978</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, 2015

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| LIABILITIES | | |
| Accounts Payable | \$ 268,222 | \$ |
| Accrued Interest Payable | | |
| Annexation Deposits | 5,627 | |
| Retainage Payable | | |
| Due to Other Funds | | 137,246 |
| Security Deposits | 119,310 | |
| Long-Term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| TOTAL LIABILITIES | \$ 393,159 | \$ 137,246 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes | \$ 394,395 | \$ 35,208 |
| Standby Fees | 79,636 | |
| TOTAL DEFERRED INFLOWS OF RESOURCES | \$ 474,031 | \$ 35,208 |
| FUND BALANCES | | |
| Nonspendable: | | |
| Prepaid Costs | \$ 8,053 | \$ |
| Joint Wastewater Treatment Plant | | |
| Operating Advance | 20,000 | |
| Restricted for Authorized Construction | | |
| Restricted for Debt Service | | 29,102 |
| Assigned to 2016 Budget Deficit | 25,743 | |
| Unassigned | 3,228,594 | |
| TOTAL FUND BALANCES | \$ 3,282,390 | \$ 29,102 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 4,149,580 | \$ 201,556 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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> |
|----------------------------------|----------------------|------------------------|--------------------------------------|
| \$ | \$ 268,222 | \$ | \$ 268,222 |
| | | 171,066 | 171,066 |
| | 5,627 | | 5,627 |
| 8,563 | 8,563 | | 8,563 |
| 74,813 | 212,059 | (212,059) | |
| | 119,310 | | 119,310 |
| | | 410,000 | 410,000 |
| | | 12,299,427 | 12,299,427 |
| <u>\$ 83,376</u> | <u>\$ 613,781</u> | <u>\$ 12,668,434</u> | <u>\$ 13,282,215</u> |
| \$ | \$ 429,603 | \$ (84,042) | \$ 345,561 |
| | 79,636 | (79,636) | |
| <u>\$ -0-</u> | <u>\$ 509,239</u> | <u>\$ (163,678)</u> | <u>\$ 345,561</u> |
| \$ | \$ 8,053 | \$ (8,053) | \$ |
| | 20,000 | (20,000) | |
| 7,260,128 | 7,260,128 | (7,260,128) | |
| | 29,102 | (29,102) | |
| | 25,743 | (25,743) | |
| | 3,228,594 | (3,228,594) | |
| <u>\$ 7,260,128</u> | <u>\$ 10,571,620</u> | <u>\$ (10,571,620)</u> | <u>\$ - 0 -</u> |
| <u>\$ 7,343,504</u> | <u>\$ 11,694,640</u> | | |
| | | \$ 4,093,693 | \$ 4,093,693 |
| | | (98,351) | (98,351) |
| | | 3,410,860 | 3,410,860 |
| | | <u>\$ 7,406,202</u> | <u>\$ 7,406,202</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, 2015**

| | |
|--|---------------|
| Total Fund Balances - Governmental Funds | \$ 10,571,620 |
|--|---------------|

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. | 9,542,992 |
|--|-----------|

| | |
|--|---------|
| Deferred tax revenues and uncollected penalty and interest revenues for the 2014 and prior tax levies and standby fees became part of recognized revenue in the governmental activities of the District. | 172,083 |
|--|---------|

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 | \$ (171,066) | |
| Bonds Payable | <u>(12,709,427)</u> | <u>(12,880,493)</u> |
| Total Net Position - Governmental Activities | | <u>\$ 7,406,202</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, 2015

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| REVENUES | | |
| Property Taxes | \$ 1,244,656 | \$ 237,406 |
| Water Service | 487,440 | |
| Wastewater Service | 615,828 | |
| Groundwater Reduction Plan Fees | 37,380 | |
| Penalty and Interest | 10,262 | 14,063 |
| Tap Connection and Inspection Fees | 56,610 | |
| Investment Revenues | 7,438 | 136 |
| Contract Revenues | 739,751 | |
| Capacity Reservation Fee | 44,169 | |
| Sale of Asset | 273,318 | |
| Miscellaneous Revenues | 39,271 | 20 |
| | <u>\$ 3,556,123</u> | <u>\$ 251,625</u> |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Professional Fees | \$ 272,356 | \$ 2,914 |
| Contracted Services | 338,801 | 14,143 |
| Purchased Wastewater Service | 223,545 | |
| Utilities | 15,058 | |
| Repairs and Maintenance | 411,671 | |
| Depreciation | | |
| Other | 218,578 | 154 |
| Capital Outlay | 474,857 | |
| Debt Service: | | |
| Bond Principal | | 390,000 |
| Bond Interest | | 523,497 |
| | <u>\$ 1,954,866</u> | <u>\$ 930,708</u> |
| NET CHANGE IN FUND BALANCES | \$ 1,601,257 | \$ (679,083) |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - JANUARY 1, 2015 | <u>1,681,133</u> | <u>708,185</u> |
| FUND BALANCES/NET POSITION - DECEMBER 31, 2015 | <u>\$ 3,282,390</u> | <u>\$ 29,102</u> |

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

| Capital Projects Fund | Total | Adjustments | Statement of Activities |
|--------------------------|---------------|----------------|----------------------------|
| \$ | \$ 1,482,062 | \$ 6,104 | \$ 1,488,166 |
| | 487,440 | | 487,440 |
| | 615,828 | | 615,828 |
| | 37,380 | | 37,380 |
| | 24,325 | 611 | 24,936 |
| | 56,610 | | 56,610 |
| 11,505 | 19,079 | | 19,079 |
| | 739,751 | | 739,751 |
| | 44,169 | | 44,169 |
| | 273,318 | | 273,318 |
| | 39,291 | (24,679) | 14,612 |
| \$ 11,505 | \$ 3,819,253 | \$ (17,964) | \$ 3,801,289 |
| \$ 8,991 | \$ 284,261 | \$ | \$ 284,261 |
| | 352,944 | | 352,944 |
| | 223,545 | | 223,545 |
| | 15,058 | | 15,058 |
| | 411,671 | | 411,671 |
| | 218,999 | 325,781 | 325,781 |
| 267 | 218,999 | | 218,999 |
| 787,755 | 1,262,612 | (1,262,612) | |
| | 390,000 | (390,000) | |
| | 523,497 | (7,059) | 516,438 |
| \$ 797,013 | \$ 3,682,587 | \$ (1,333,890) | \$ 2,348,697 |
| \$ (785,508) | \$ 136,666 | \$ (136,666) | \$ |
| | | 1,452,592 | 1,452,592 |
| 8,045,636 | 10,434,954 | (4,481,344) | 5,953,610 |
| \$ 7,260,128 | \$ 10,571,620 | \$ (3,165,418) | \$ 7,406,202 |

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, 2015**

| | | |
|--|----|------------------|
| Net Change in Fund Balances - Governmental Funds | \$ | 136,666 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | | |
| <p>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.</p> | | 6,104 |
| <p>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.</p> | | (24,068) |
| <p>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.</p> | | (325,781) |
| <p>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.</p> | | 1,262,612 |
| <p>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.</p> | | 390,000 |
| <p>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.</p> | | 7,059 |
| Change in Net Position - Governmental Activities | \$ | <u>1,452,592</u> |

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, 2015

NOTE 1. CREATION OF DISTRICT

Montgomery County Utility District No. 4 (the “District”) was created effective May 24, 1971, by an act of the 62nd 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, 2015

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, 2015

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, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include 2014 taxes collected during the period October 1, 2014, to December 31, 2015. In addition, taxes collected from January 1, 2015, to December 31, 2015, for the 2013 and prior tax levies are included in revenue. The 2015 tax levy has been fully deferred to finance the District's 2016 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, 2015, the Debt Service Fund owes the General Fund \$137,246 for maintenance tax collections and the Capital Projects Fund owes the General Fund \$74,813 for construction and land 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, 2015

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, 2015

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. As of December 31, 2015, the District has assigned \$25,743 of the General Fund fund balance to use for a budgeted General Fund deficit for the year ended December 31, 2016.

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, 2015 | \$ 5,125,000 | \$ 7,580,000 |
| Interest Rates | 3.00% - 5.50% | 3.00% - 5.00% |
| Maturity Dates - Serially Beginning/Ending | March 1, 2016/2030 | March 1, 2016/2039 |
| 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, 2015

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2015:

| | January 1, 2015 | Additions | Retirements | December 31, 2015 |
|---------------------------|----------------------|----------------------------|-------------------|----------------------|
| Bonds Payable | \$ 13,095,000 | \$ | \$ 390,000 | \$ 12,705,000 |
| Unamortized Bond Premiums | 4,618 | | 191 | 4,427 |
| Bonds Payable, net | <u>\$ 13,099,618</u> | <u>\$ -0-</u> | <u>\$ 390,191</u> | <u>\$ 12,709,427</u> |
| | | Amount Due Within One Year | | \$ 410,000 |
| | | Amount Due After One Year | | 12,299,427 |
| | | Bonds Payable, net | | <u>\$ 12,709,427</u> |

As of December 31, 2015, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|---------------------|----------------------|
| 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 |
| 2021-2025 | 2,900,000 | 1,765,782 | 4,665,782 |
| 2026-2030 | 3,710,000 | 1,169,820 | 4,879,820 |
| 2031-2035 | 1,935,000 | 601,725 | 2,536,725 |
| 2036-2039 | 1,890,000 | 165,325 | 2,055,325 |
| | <u>\$ 12,705,000</u> | <u>\$ 5,985,139</u> | <u>\$ 18,690,139</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, 2015, the District did not levy an ad valorem debt service tax. 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, 2015, 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, 2015

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 RESOLUTION AND LEGAL REQUIREMENTS

- A. The bond resolutions state 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 resolutions 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, 2015

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 \$10,075,853 and the bank balance was \$10,035,491. Of the bank balance, \$2,942,271 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, 2015, as listed below:

| | Cash | Certificates of Deposit | Total |
|-----------------------|--------------|----------------------------|---------------|
| GENERAL FUND | \$ 112,127 | \$ 2,475,145 | \$ 2,587,272 |
| DEBT SERVICE FUND | 145,077 | | 145,077 |
| CAPITAL PROJECTS FUND | 7,343,504 | | 7,343,504 |
| TOTAL DEPOSITS | \$ 7,600,708 | \$ 2,475,145 | \$ 10,075,853 |

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, 2015

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, 2015, the District had the following investments and maturities:

| <u>Fund and Investment Type</u> | <u>Fair Value</u> | <u>Maturities - Less Than 1 Year</u> |
|-------------------------------------|----------------------------|--|
| <u>GENERAL FUND</u> | | |
| TexPool | \$ 768,047 | \$ 768,047 |
| Certificates of Deposit | 2,475,145 | 2,475,145 |
| <u>DEBT SERVICE FUND</u> | | |
| TexPool | <u>21,271</u> | <u>21,271</u> |
| TOTAL INVESTMENTS | <u><u>\$ 3,264,463</u></u> | <u><u>\$ 3,264,463</u></u> |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2015, 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, 2015

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 is as follows:

| | January 1, 2015 | Increases | Decreases | December 31, 2015 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 60,403 | \$ 73,896 | \$ | \$ 134,299 |
| Construction in Progress | 351,060 | 1,262,612 | 1,399,489 | 214,183 |
| Total Capital Assets Not Being Depreciated | <u>\$ 411,463</u> | <u>\$ 1,336,508</u> | <u>\$ 1,399,489</u> | <u>\$ 348,482</u> |
| Capital Assets Subject to Depreciation | | | | |
| Water System | \$ 5,039,722 | \$ 109,627 | | \$ 5,149,349 |
| Wastewater System | 7,254,229 | 1,215,967 | | 8,470,196 |
| Total Capital Assets Subject to Depreciation | <u>\$ 12,293,951</u> | <u>\$ 1,325,594</u> | <u>\$ -0-</u> | <u>\$ 13,619,545</u> |
| Accumulated Depreciation | | | | |
| Water System | \$ 1,645,384 | \$ 106,930 | | \$ 1,752,314 |
| Wastewater System | 2,453,870 | 218,851 | | 2,672,721 |
| Total Accumulated Depreciation | <u>\$ 4,099,254</u> | <u>\$ 325,781</u> | <u>\$ -0-</u> | <u>\$ 4,425,035</u> |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ 8,194,697</u> | <u>\$ 999,813</u> | <u>\$ -0-</u> | <u>\$ 9,194,510</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u><u>\$ 8,606,160</u></u> | <u><u>\$ 2,336,321</u></u> | <u><u>\$ 1,399,489</u></u> | <u><u>\$ 9,542,992</u></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 \$0.08 per \$100 of assessed valuation, which resulted in a tax levy of \$345,561 on the adjusted taxable valuation of \$431,941,991 for the 2015 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 2015 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, 2015

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 \$223,545 for its share of operating costs and had an advance for wastewater treatment plant operations of \$20,000 with District No. 3.

The following summary data of the joint wastewater treatment plant is presented for the fiscal year ended December 31, 2015. 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 | \$ 168,393 |
| Total Liabilities | <u>128,393</u> |
| Total Fund Balance | <u>\$ 40,000</u> |
| | |
| Total Revenues | \$ 435,542 |
| Total Expenditures | <u>435,542</u> |
| | |
| Net Change in Fund Balance | \$ -0- |
| | |
| Beginning Fund Balance | <u>40,000</u> |
| Ending Fund Balance | <u>\$ 40,000</u> |

NOTE 9. LONE STAR GROUNDWATER CONSERVATION DISTRICT AND GROUNDWATER REDUCTION PLAN

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, 2015

NOTE 9. LONE STAR GROUNDWATER CONSERVATION DISTRICT AND GROUNDWATER REDUCTION PLAN (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 \$6,048 for permit fees assessed during the current fiscal year.

The District, District No. 3 and the City of Montgomery, Texas (“Montgomery”) (collectively the “Participants”) entered into an Agreement for a Joint Groundwater Reduction Plan. The District and District No. 3 jointly own and operate an alternative water source well and agree to produce water from the well to meet the groundwater reduction requirements of the Participants as required by the Rules of the Conservation District. Montgomery pays monthly groundwater reduction fees under the agreement. The District recorded \$37,380 for its share of groundwater reduction fees from Montgomery for the year ended December 31, 2015. Montgomery has constructed a well to provide its own alternative water source and has indicated that the agreement would be terminated on or after December 31, 2016.

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, 2015; (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.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

The SPA requires the District to reserve 150,000 gallons per day of treatment capacity from the District's share of the total treatment capacity from the wastewater treatment plant for which the City will pay an annual reservation fee, which is subject to an annual true-up. Additionally, in consideration for the reservation of capacity, the City will make an annual payment to defray part of the District's debt service. The SPA also requires the City to make an annual payment to the District in consideration of services provided to operate and maintain storm sewer facilities. During the current fiscal year, the District recorded \$44,169 in capacity reservation fees and \$491,972 and \$247,779 in contract revenues related to debt service and services provided, respectively, in accordance with the terms of the SPA.

NOTE 12. ESCROW REQUIREMENTS

The Commission required \$2,935,000 of the Series 2014 Bonds to be escrowed. On July 24, 2015, the Commission released \$75,000 of funds from escrow for land acquisition costs for water plant no. 1. As of December 31, 2015, \$2,860,000 remains in escrow.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

**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, 2015**

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|--------------------------------------|---------------------|---|
| REVENUES | | | |
| Property Taxes | \$ 950,000 | \$ 1,244,656 | \$ 294,656 |
| Water Service | 460,000 | 487,440 | 27,440 |
| Wastewater Service | 626,000 | 615,828 | (10,172) |
| Groundwater Reduction Plan Fees | 60,000 | 37,380 | (22,620) |
| Penalty and Interest | 11,000 | 10,262 | (738) |
| Tap Connection and Inspection Fees | 68,120 | 56,610 | (11,510) |
| Investment Revenues | 6,200 | 7,438 | 1,238 |
| Contract Revenues | | 739,751 | 739,751 |
| Capacity Reservation Fee | | 44,169 | 44,169 |
| Sale of Asset | | 273,318 | 273,318 |
| Miscellaneous Revenues | <u>40,200</u> | <u>39,271</u> | <u>(929)</u> |
| TOTAL REVENUES | <u>\$ 2,221,520</u> | <u>\$ 3,556,123</u> | <u>\$ 1,334,603</u> |
| EXPENDITURES | | | |
| Services Operations: | | | |
| Professional Fees | \$ 364,600 | \$ 272,356 | \$ 92,244 |
| Contracted Services | 326,800 | 338,801 | (12,001) |
| Purchased Wastewater Service | 288,000 | 223,545 | 64,455 |
| Utilities | 16,200 | 15,058 | 1,142 |
| Repairs and Maintenance | 389,000 | 411,671 | (22,671) |
| Other | 232,900 | 218,578 | 14,322 |
| Capital Outlay | <u>314,000</u> | <u>474,857</u> | <u>(160,857)</u> |
| TOTAL EXPENDITURES | <u>\$ 1,931,500</u> | <u>\$ 1,954,866</u> | <u>\$ (23,366)</u> |
| NET CHANGE IN FUND BALANCE | \$ 290,020 | \$ 1,601,257 | \$ 1,311,237 |
| FUND BALANCE - JANUARY 1, 2015 | <u>1,681,133</u> | <u>1,681,133</u> | <u> </u> |
| FUND BALANCE - DECEMBER 31, 2015 | <u>\$ 1,971,153</u> | <u>\$ 3,282,390</u> | <u>\$ 1,311,237</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, 2015

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2015**

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 | _____ |
| ≤ ³ / ₄ " | <u>1,464</u> | <u>1,452</u> | x 1.0 | <u>1,452</u> |
| 1" | <u>61</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>1,540</u></u> | <u><u>1,526</u></u> | | <u><u>1,767</u></u> |
| Total Wastewater Connections | <u><u>1,508</u></u> | <u><u>1,494</u></u> | x 1.0 | <u><u>1,494</u></u> |

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

Gallons billed to customers: 170,498,000* Water Accountability Ratio: 94.9%
(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 292,577,000 gallons. District No. 3 billed its customers for 107,226,000 gallons of usage.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely X Partly _____ Not at all _____

City in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | |
|-----------------------------------|-------------------|
| PROFESSIONAL FEES: | |
| Auditing | \$ 9,700 |
| Engineering | 73,404 |
| Legal | <u>189,252</u> |
| TOTAL PROFESSIONAL FEES | <u>\$ 272,356</u> |
| PURCHASED SERVICES FOR RESALE: | |
| Purchased Wastewater Service | <u>\$ 223,545</u> |
| CONTRACTED SERVICES: | |
| Bookkeeping | \$ 35,891 |
| Operations and Billing | <u>89,372</u> |
| TOTAL CONTRACTED SERVICES | <u>\$ 125,263</u> |
| UTILITIES: | |
| Electricity | \$ 14,469 |
| Telephone | <u>589</u> |
| TOTAL UTILITIES | <u>\$ 15,058</u> |
| REPAIRS AND MAINTENANCE | <u>\$ 411,671</u> |
| ADMINISTRATIVE EXPENDITURES: | |
| Director Fees | \$ 23,850 |
| Insurance | 14,769 |
| Legal Notices | 980 |
| Office Supplies and Postage | 19,443 |
| Payroll Taxes | 1,825 |
| Travel and Meetings | <u>1,687</u> |
| TOTAL ADMINISTRATIVE EXPENDITURES | <u>\$ 62,554</u> |

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | |
|------------------------------|-----------------------------|
| CAPITAL OUTLAY: | |
| Capitalized Assets | \$ 474,857 |
| Expenditures Not Capitalized | <u> </u> |
| TOTAL CAPITAL OUTLAY: | <u>\$ 474,857</u> |
| TAP CONNECTIONS | <u>\$ 19,483</u> |
| SOLID WASTE DISPOSAL | <u>\$ 213,538</u> |
| OTHER EXPENDITURES: | |
| Chemicals | \$ 84,683 |
| Laboratory Fees | 2,942 |
| Permit Fees | 17,077 |
| Reconnection Fees | 16,616 |
| Inspection Fees | 7,664 |
| Regulatory Assessment | 5,310 |
| Other | <u>2,249</u> |
| TOTAL OTHER EXPENDITURES | <u>\$ 136,541</u> |
| TOTAL EXPENDITURES | <u><u>\$ 1,954,866</u></u> |

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
INVESTMENTS
DECEMBER 31, 2015

| 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 | \$ 768,047 | \$ |
| Certificate of Deposit | XXXX4348 | 0.40% | 05/26/16 | 150,000 | 301 |
| Certificate of Deposit | XXXX0319 | 0.25% | 02/17/16 | 100,000 | 173 |
| Certificate of Deposit | XXXX0320 | 0.25% | 03/21/16 | 100,000 | 173 |
| Certificate of Deposit | XXXX6639 | 0.20% | 03/06/16 | 190,000 | 244 |
| Certificate of Deposit | XXXX1906 | 0.40% | 09/19/16 | 150,000 | 11 |
| Certificate of Deposit | XXXX1004 | 0.45% | 04/05/16 | 95,000 | 274 |
| Certificate of Deposit | XXXX0133 | 0.40% | 08/15/16 | 95,145 | 13 |
| Certificate of Deposit | XXXX6537 | 0.20% | 08/02/16 | 95,000 | 44 |
| Certificate of Deposit | XXXX7895 | 0.20% | 06/11/16 | 95,000 | 71 |
| Certificate of Deposit | XXXX6034 | 0.21% | 01/19/16 | 240,000 | 358 |
| Certificate of Deposit | XXXX5477 | 0.45% | 06/20/16 | 150,000 | 237 |
| Certificate of Deposit | XXXX0698 | 0.40% | 05/30/16 | 240,000 | 158 |
| Certificate of Deposit | XXXX4478 | 0.30% | 07/09/16 | 240,000 | 215 |
| Certificate of Deposit | XXXX2637 | 0.50% | 02/19/16 | 240,000 | 851 |
| Certificate of Deposit | XXXX1667 | 0.35% | 05/17/16 | 95,000 | 175 |
| Certificate of Deposit | XXXX0097 | 0.40% | 04/22/16 | 100,000 | 276 |
| Certificate of Deposit | XXXX8938 | 0.30% | 01/24/16 | 100,000 | 201 |
| TOTAL GENERAL FUND | | | | <u>\$ 3,243,192</u> | <u>\$ 3,775</u> |
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | XXXX0001 | Varies | Daily | <u>\$ 21,271</u> | <u>\$ -0-</u> |
| TOTAL - ALL FUNDS | | | | <u>\$ 3,264,463</u> | <u>\$ 3,775</u> |

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Maintenance Taxes | | Debt Service Taxes |
|----------------------------------|-------------------|-------------------|--|
| TAXES RECEIVABLE - | | | |
| JANUARY 1, 2015 | \$ 597,860 | | \$ 142,738 |
| Adjustments to Beginning Balance | <u>(2,829)</u> | \$ 595,031 | <u>(1,085)</u> \$ 141,653 |
| Original 2015 Tax Levy | \$ 345,840 | | \$ |
| Adjustment to 2015 Tax Levy | <u>(279)</u> | <u>345,561</u> | <u> </u> |
| TOTAL TO BE ACCOUNTED FOR | | \$ 940,592 | \$ 141,653 |
| TAX COLLECTIONS: | | | |
| Prior Years | \$ 546,198 | | \$ 106,445 |
| Current Year | <u>173,313</u> | <u>719,511</u> | <u> </u> <u>106,445</u> |
| TAXES RECEIVABLE - | | | |
| DECEMBER 31, 2015 | | <u>\$ 221,081</u> | <u>\$ 35,208</u> |
| TAXES RECEIVABLE BY YEAR: | | | |
| 2015 | | \$ 172,248 | \$ |
| 2014 | | 13,503 | 2,532 |
| 2013 | | 3,270 | 5,668 |
| 2012 | | 4,518 | 3,282 |
| 2011 | | 4,977 | 4,411 |
| 2010 | | 4,475 | 3,687 |
| 2009 | | 3,586 | 3,125 |
| 2008 and prior | | <u>14,504</u> | <u>12,503</u> |
| TOTAL | | <u>\$ 221,081</u> | <u>\$ 35,208</u> |

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| TOTAL PROPERTY VALUATIONS | <u>\$ 431,941,991</u> | <u>\$ 392,620,425</u> | <u>\$ 411,699,975</u> | <u>\$ 367,991,295</u> |
| TAX RATES PER \$100 VALUATION: | | | | |
| Debt Service | \$ 0.00 | \$ 0.06 | \$ 0.2375 | \$ 0.2375 |
| Maintenance | <u>0.08</u> | <u>0.32</u> | <u>0.1725</u> | <u>0.1725</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u>\$ 0.08</u> | <u>\$ 0.3800</u> | <u>\$ 0.4100</u> | <u>\$ 0.4100</u> |
| ADJUSTED TAX LEVY* | <u>\$ 345,561</u> | <u>\$ 1,492,079</u> | <u>\$ 1,541,866</u> | <u>\$ 1,517,213</u> |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED | <u>50.15 %</u> | <u>98.93 %</u> | <u>99.42 %</u> | <u>99.49 %</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, 2015

| 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 | |
| 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 | | | | |
| | \$ 5,125,000 | \$ 1,728,858 | \$ | 6,853,858 |

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2015

| 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 |
| 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 |
| | \$ 7,580,000 | \$ 4,256,281 | \$ 11,836,281 |

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2015

ANNUAL REQUIREMENTS
FOR ALL SERIES

| Due During Fiscal Years Ending December 31 | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
|--|------------------------|-----------------------|--|
| 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>\$ 12,705,000</u> | <u>\$ 5,985,139</u> | <u>\$ 18,690,139</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, 2015**

| Description | Original Bonds Issued | Bonds Outstanding January 1, 2015 |
|--|-----------------------------|---|
| Montgomery County Utility District No. 4 Unlimited Tax Bonds - Series 2011 | \$ 5,755,000 | \$ 5,345,000 |
| Montgomery County Utility District No. 4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2014 | <u>7,750,000</u> | <u>7,750,000</u> |
| TOTAL | <u><u>\$ 13,505,000</u></u> | <u><u>\$ 13,095,000</u></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><u>\$ 13,250,000</u></u> | <u><u>\$ 5,243,683</u></u> |
| | | |
| Debt Service Fund cash, investment and cash with tax assessor/collector balances as of December 31, 2015: | | <u><u>\$ 166,348</u></u> |
| | | |
| Average annual debt service payment (principal and interest) for remaining term of all debt: | | <u><u>\$ 778,756</u></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, 2015</u> | <u>Paying Agent</u> |
| | <u>Principal</u> | <u>Interest</u> | | |
| \$ | \$ 220,000 | \$ 217,035 | \$ 5,125,000 | The Bank Of New York Mellon Trust Company, N.A. Dallas, TX |
| | <u>170,000</u> | <u>306,462</u> | <u>7,580,000</u> | The Bank Of New York Mellon Trust Company, N.A. Dallas, TX |
| <u>\$ - 0 -</u> | <u>\$ 390,000</u> | <u>\$ 523,497</u> | <u>\$ 12,705,000</u> | |

See accompanying independent auditor's report.

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

| | Amount | | |
|--|---------------------|---------------------|---------------------|
| | 2015 | 2014 | 2013 |
| REVENUES | | | |
| Property Taxes | \$ 1,244,656 | \$ 561,696 | \$ 735,422 |
| Water and Wastewater Service | 1,103,268 | 1,105,261 | 1,120,125 |
| Groundwater Reduction Plan Fees | 37,380 | 60,990 | 44,987 |
| Penalty and Interest | 10,262 | 10,490 | 14,891 |
| Tap Connection and Inspection Fees | 56,610 | 67,750 | 23,205 |
| Investment Revenues | 7,438 | 3,516 | 5,673 |
| Contract Revenues | 739,751 | | |
| Capacity Reservation Fee | 44,169 | | |
| Sale of Asset | 273,318 | | |
| Miscellaneous Revenues | 39,271 | 202,145 | 23,095 |
| TOTAL REVENUES | \$ 3,556,123 | \$ 2,011,848 | \$ 1,967,398 |
| EXPENDITURES | | | |
| Professional Fees | \$ 272,356 | \$ 291,041 | \$ 250,322 |
| Contracted Services | 338,801 | 305,432 | 112,759 |
| Purchased Water and Wastewater Service | 223,545 | 257,927 | 213,631 |
| Utilities | 15,058 | 15,511 | 13,187 |
| Repairs and Maintenance | 411,671 | 574,257 | 685,188 |
| Other | 218,578 | 246,146 | 585,286 |
| Capital Outlay | 474,857 | 184,981 | 231,435 |
| TOTAL EXPENDITURES | \$ 1,954,866 | \$ 1,875,295 | \$ 2,091,808 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ 1,601,257 | \$ 136,553 | \$ (124,410) |
| OTHER FINANCING SOURCES (USES) | | | |
| Refund of Prior Years Taxes | \$ | \$ | \$ |
| Property Settlement | | | |
| Capital Contributions | | | |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ - 0 - | \$ - 0 - | \$ - 0 - |
| NET CHANGE IN FUND BALANCE | \$ 1,601,257 | \$ 136,553 | \$ (124,410) |
| BEGINNING FUND BALANCE | 1,681,133 | 1,544,580 | 2,970,436 |
| PRIOR PERIOD ADJUSTMENTS | | | (1,301,446) |
| ENDING FUND BALANCE | \$ 3,282,390 | \$ 1,681,133 | \$ 1,544,580 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenue | | | | |
|--------------|--------------|-----------------------------|---------|---------|---------|---------|
| 2012 | 2011 | 2015 | 2014 | 2013 | 2012 | 2011 |
| \$ 850,818 | \$ 1,577,608 | 35.0 % | 28.0 % | 37.3 % | 39.5 % | 44.1 % |
| 1,169,804 | 1,889,876 | 31.0 | 54.9 | 56.9 | 54.4 | 52.8 |
| 46,518 | | 1.1 | 3.0 | 2.3 | 2.2 | |
| 11,893 | 17,365 | 0.3 | 0.5 | 0.8 | 0.6 | 0.5 |
| 44,070 | 43,990 | 1.6 | 3.4 | 1.2 | 2.0 | 1.2 |
| 8,157 | 19,632 | 0.2 | 0.2 | 0.3 | 0.4 | 0.5 |
| | | 20.8 | | | | |
| | | 1.2 | | | | |
| | | 7.7 | | | | |
| 19,963 | 32,592 | 1.1 | 10.0 | 1.2 | 0.9 | 0.9 |
| \$ 2,151,223 | \$ 3,581,063 | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| \$ 305,602 | \$ 136,534 | 7.7 % | 14.5 % | 12.7 % | 14.2 % | 3.8 % |
| 119,454 | 162,559 | 9.5 | 15.2 | 5.7 | 5.6 | 4.5 |
| 175,491 | 348,466 | 6.3 | 12.8 | 10.9 | 8.1 | 9.7 |
| 12,006 | 19,190 | 0.4 | 0.8 | 0.7 | 0.6 | 0.5 |
| 482,163 | 1,014,823 | 11.6 | 28.5 | 34.8 | 22.4 | 28.3 |
| 723,047 | 606,216 | 6.1 | 12.2 | 29.7 | 33.6 | 16.9 |
| 524,648 | 1,199,463 | 13.4 | 9.2 | 11.8 | 24.4 | 33.5 |
| \$ 2,342,411 | \$ 3,487,251 | 55.0 % | 93.2 % | 106.3 % | 108.9 % | 97.2 % |
| \$ (191,188) | \$ 93,812 | 45.0 % | 6.8 % | (6.3) % | (8.9) % | 2.8 % |
| \$ (22,173) | \$ | | | | | |
| 109,653 | | | | | | |
| | 90,000 | | | | | |
| \$ 87,480 | \$ 90,000 | | | | | |
| \$ (103,708) | \$ 183,812 | | | | | |
| 3,074,144 | 3,992,103 | | | | | |
| | (1,101,771) | | | | | |
| \$ 2,970,436 | \$ 3,074,144 | | | | | |

See accompanying independent auditor's report.

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

| | Amount | | |
|--|---------------------|-------------------|-------------------|
| | 2015 | 2014 | 2013 |
| REVENUES | | | |
| Property Taxes | \$ 237,406 | \$ 970,377 | \$ 851,301 |
| Penalty and Interest | 14,063 | 8,952 | 4,975 |
| Investment Revenues | 136 | 257 | 254 |
| Miscellaneous Revenues | 20 | | |
| TOTAL REVENUES | <u>\$ 251,625</u> | <u>\$ 979,586</u> | <u>\$ 856,530</u> |
| EXPENDITURES | | | |
| Tax Collection Expenditures | \$ 15,961 | \$ 14,865 | \$ 11,556 |
| Debt Service Principal | 390,000 | 210,000 | 200,000 |
| Debt Service Interest and Fees | 524,747 | 388,919 | 240,802 |
| TOTAL EXPENDITURES | <u>\$ 930,708</u> | <u>\$ 613,784</u> | <u>\$ 452,358</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ (679,083)</u> | <u>\$ 365,802</u> | <u>\$ 404,172</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Voided Checks for Prior Years Expenditures | \$ | \$ | \$ |
| Refund of Prior Years Taxes | | | |
| Long-Term Debt Issued | | | |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> |
| NET CHANGE IN FUND BALANCE | \$ (679,083) | \$ 365,802 | \$ 404,172 |
| BEGINNING FUND BALANCE | 708,185 | 342,383 | (504,176) |
| PRIOR PERIOD ADJUSTMENTS | | | 442,387 |
| ENDING FUND BALANCE | <u>\$ 29,102</u> | <u>\$ 708,185</u> | <u>\$ 342,383</u> |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | <u>1,526</u> | <u>1,493</u> | <u>1,468</u> |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | <u>1,494</u> | <u>1,470</u> | <u>1,445</u> |

See accompanying independent auditor's report.

| | | Percentage of Total Revenue | | | | |
|---------------------|---------------------|-----------------------------|----------------|----------------|----------------|----------------|
| 2012 | 2011 | 2015 | 2014 | 2013 | 2012 | 2011 |
| \$ 681,073 | \$ 1,336,045 | 94.3 % | 99.1 % | 99.4 % | 99.3 % | 99.3 % |
| 4,074 | 9,246 | 5.6 | 0.9 | 0.6 | 0.6 | 0.7 |
| 394 | 499 | 0.1 | | | 0.1 | |
| <u>\$ 685,541</u> | <u>\$ 1,345,790</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 12,527 | \$ 20,203 | 6.3 % | 1.5 % | 1.3 % | 1.8 % | 1.5 % |
| 795,000 | 770,000 | 155.0 | 21.4 | 23.4 | 116.0 | 57.2 |
| 322,291 | 48,553 | 208.5 | 39.7 | 28.1 | 47.0 | 3.6 |
| <u>\$ 1,129,818</u> | <u>\$ 838,756</u> | <u>369.8 %</u> | <u>62.6 %</u> | <u>52.8 %</u> | <u>164.8 %</u> | <u>62.3 %</u> |
| \$ (444,277) | \$ 507,034 | (269.8) % | 37.4 % | 47.2 % | (64.8) % | 37.7 % |
| 19,102 | \$ (7,139) | | | | | |
| | 302,822 | | | | | |
| <u>\$ 19,102</u> | <u>\$ 295,683</u> | | | | | |
| \$ (425,175) | \$ 802,717 | | | | | |
| (79,001) | (881,718) | | | | | |
| <u>\$ (504,176)</u> | <u>\$ (79,001)</u> | | | | | |
| <u>1,459</u> | <u>1,458</u> | | | | | |
| <u>1,436</u> | <u>1,435</u> | | | | | |

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2015**

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

| Board Members | Term of Office (Elected or Appointed) | Fees of Office for the year ended <u>December 31, 2015</u> | Expense Reimbursements for the year ended <u>December 31, 2015</u> | <u>Title</u> |
|----------------------|--|---|---|------------------------------------|
| Gary S. North | 05/2014 05/2018 (Elected) | \$ 5,850 | \$ -0- | President |
| Maurice Williams | 01/2015 05/2016 (Appointed) | \$ 4,800 | \$ -0- | Vice President |
| Carl D. Clay | 05/2012 05/2016 (Elected) | \$ 4,350 | \$ -0- | Secretary |
| J. Frank Haasbeek | 05/2014 05/2018 (Elected) | \$ 4,500 | \$ -0- | Director/ Investment Officer |
| Marvin Carter | 05/2012 05/2016 (Elected) | \$ 4,350 | \$ -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): February 17, 2016.

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, 2015

| | <u>Date Hired</u> | <u>Fees for the year ended December 31, 2015</u> | <u>Title</u> |
|--|-------------------|--|----------------------------|
| Coats, Rose, Yale, Ryman & Lee, P.C. | 02/25/10 | \$ 221,671 | Attorney |
| McCall Gibson Swedlund Barfoot PLLC | 12/18/14 | \$ 9,700 | Auditor |
| Municipal Accounts & Consulting, LP | 01/01/95 | \$ 41,993 | Bookkeeper |
| Linebarger Goggan Blair & Sampson, LLP | | \$ 2,914 | Delinquent Tax Attorney |
| Bleyl & Associates | 06/18/02 | \$ 146,281 | Engineer |
| Robert W. Baird & Co. Incorporated | 03/26/15 | \$ -0- | Financial Advisor |
| Hays Utility North Corporation | 04/01/95 | \$1,006,771 | Operator |
| Tammy J. McRae | 03/01/95 | \$ 357 | Tax Assessor/ Collector |

See accompanying independent auditor's report.

