

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2017

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
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ANNUAL FINANCIAL REPORT
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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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 26, 2018

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide 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 Statement of Net Position includes all 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 is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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, 2017**

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 \$8,027,541 as of December 31, 2017. 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, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 10,463,124	\$ 10,665,663	\$ (202,539)
Capital Assets (Net of Accumulated Depreciation)	10,330,882	9,964,683	366,199
Total Assets	\$ 20,794,006	\$ 20,630,346	\$ 163,660
Long-Term Liabilities	\$ 11,414,044	\$ 11,864,235	\$ 450,191
Other Liabilities	984,014	963,463	(20,551)
Total Liabilities	\$ 12,398,058	\$ 12,827,698	\$ 429,640
Deferred Inflows of Resources	\$ 368,407	\$ 352,748	\$ (15,659)
Net Position:			
Net Investment in Capital Assets	\$ 4,626,129	\$ 4,214,776	\$ 411,353
Restricted	(102,103)	(118,255)	16,152
Unrestricted	3,503,515	3,353,379	150,136
Total Net Position	\$ 8,027,541	\$ 7,449,900	\$ 577,641

The following table provides a summary of the District's operations for the years ending December 31, 2017 and December 31, 2016. The District's net position increased by \$577,641.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 352,302	\$ 343,391	\$ 8,911
Charges for Services	1,154,309	1,345,391	(191,082)
Other Revenues	1,598,840	833,154	765,686
Total Revenues	\$ 3,105,451	\$ 2,521,936	\$ 583,515
Expenses for Services	2,527,810	2,478,238	(49,572)
Change in Net Position	\$ 577,641	\$ 43,698	\$ 533,943
Net Position, Beginning of Year	7,449,900	7,406,202	43,698
Net Position, End of Year	\$ 8,027,541	\$ 7,449,900	\$ 577,641

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2017, were \$9,571,181, a decrease of \$231,324 from the prior year.

The General Fund fund balance increased by \$149,095, primarily due to service revenues, property taxes and groundwater credit sale revenues exceeding operating and capital costs.

The Debt Service Fund fund balance increased by \$9,618, primarily due to the structure of the District's outstanding debt and a transfer of funds from the General Fund.

The Capital Projects Fund fund balance decreased by \$390,037, primarily due to proceeds from bonds issued in previous years 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 revenues were \$503,450 more than budgeted revenues, primarily due to the sale of groundwater credits which were unbudgeted for offset by lower than anticipated revenues in property taxes and most service revenue categories. Actual expenditures were \$170,361 less than budgeted expenditures, primarily due to lower than anticipated costs across all categories except contracted services, purchased wastewater service and utilities.

CAPITAL ASSETS

Capital assets as of December 31, 2017, total \$10,330,882 (net of accumulated depreciation) and include land, as well as the water and wastewater systems. Significant capital asset activity completed during the current fiscal year included the panel for the lift station rehabilitation; water plant no. 1 hydrocoating; and discharge piping for the Catahoula water well.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 134,299	\$ 134,299	\$
Construction in Progress	448,726	4,201	444,525
Capital Assets, Net of Accumulated Depreciation:			
Water System	3,362,537	3,430,731	(68,194)
Wastewater System	6,385,320	6,395,452	(10,132)
Total Net Capital Assets	\$ 10,330,882	\$ 9,964,683	\$ 366,199

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$11,860,000. The changes in the debt position of the District during the fiscal year ended December 31, 2017, are summarized as follows:

Bond Debt Payable, January 1, 2017	\$ 12,295,000
Less: Bond Principal Paid	<u>435,000</u>
Bond Debt Payable, December 31, 2017	<u>\$ 11,860,000</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, 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, 2017

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 65,280	\$ 177,055
Investments	3,450,600	22,700
Receivables:		
Property Taxes	205,274	27,419
Penalty and Interest on Delinquent Taxes		
Service Accounts	132,030	
Accrued Interest	9,329	
Other	137,694	
Due from Other Funds	180,511	
Prepaid Costs	8,694	
Advance for Joint Wastewater Treatment		
Plant Operations	20,000	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 4,209,412	\$ 227,174

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>
\$ 6,200,029	\$ 6,442,364 3,473,300	\$	\$ 6,442,364 3,473,300
	232,693		232,693
	132,030	7,020	7,020
	9,329		9,329
	137,694		137,694
	180,511	(180,511)	
	8,694		8,694
	20,000		20,000
		134,299	134,299
		448,726	448,726
		<u>9,747,857</u>	<u>9,747,857</u>
<u>\$ 6,200,029</u>	<u>\$ 10,636,615</u>	<u>\$ 10,157,391</u>	<u>\$ 20,794,006</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, 2017

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 197,182	\$
Accrued Interest Payable		
Annexation Deposits	12,788	
Retainage Payable		
Due to Other Funds		180,106
Security Deposits	127,520	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 337,490	\$ 180,106
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 411,190	\$ 27,419
Standby Fees	68,491	
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 479,681	\$ 27,419
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 8,694	\$
Joint Wastewater Treatment Plant		
Operating Advance	20,000	
Restricted for Authorized Construction		
Restricted for Debt Service		19,649
Unassigned	3,363,547	
TOTAL FUND BALANCES	\$ 3,392,241	\$ 19,649
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,209,412	\$ 227,174
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.

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$	\$ 197,182	\$	\$ 197,182
		156,191	156,191
	12,788		12,788
40,333	40,333		40,333
405	180,511	(180,511)	
	127,520		127,520
		450,000	450,000
		11,414,044	11,414,044
\$ 40,738	\$ 558,334	\$ 11,839,724	\$ 12,398,058
\$	\$ 438,609	\$ (70,202)	\$ 368,407
	68,491	(68,491)	
\$ -0-	\$ 507,100	\$ (138,693)	\$ 368,407
\$	\$ 8,694	\$ (8,694)	\$
	20,000	(20,000)	
6,159,291	6,159,291	(6,159,291)	
	19,649	(19,649)	
	3,363,547	(3,363,547)	
\$ 6,159,291	\$ 9,571,181	\$ (9,571,181)	\$ - 0 -
\$ 6,200,029	\$ 10,636,615		
		\$ 4,626,129	\$ 4,626,129
		(102,103)	(102,103)
		3,503,515	3,503,515
		\$ 8,027,541	\$ 8,027,541

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, 2017**

Total Fund Balances - Governmental Funds	\$	9,571,181
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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.		10,330,882
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable for the 2016 and prior tax levies and standby fees became part of recognized revenue in the governmental activities of the District.		145,713
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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	\$ (156,191)	
Bonds Payable	<u>(11,864,044)</u>	<u>(12,020,235)</u>
Total Net Position - Governmental Activities		<u>\$ 8,027,541</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 FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 349,990	\$ 1,209
Water Service	438,092	
Wastewater Service	629,266	
Penalty and Interest	9,674	10,934
Tap Connection and Inspection Fees	66,233	
Investment Revenues	21,950	345
Contract Revenues	779,113	
Sale of Groundwater Credits	750,000	
Miscellaneous Revenues	35,332	
	<u>\$ 3,079,650</u>	<u>\$ 12,488</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 310,842	\$ 2,132
Contracted Services	365,463	4,689
Purchased Wastewater Service	205,973	
Utilities	15,569	
Repairs and Maintenance	512,805	
Depreciation		
Other	271,668	102
Capital Outlay	329,122	
Debt Service:		
Bond Principal		435,000
Bond Interest		480,060
	<u>\$ 2,011,442</u>	<u>\$ 921,983</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ 1,068,208</u>	<u>\$ (909,495)</u>
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	<u>\$ (919,113)</u>	<u>\$ 919,113</u>
NET CHANGE IN FUND BALANCES	<u>\$ 149,095</u>	<u>\$ 9,618</u>
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2017	<u>3,243,146</u>	<u>10,031</u>
FUND BALANCES/NET POSITION - DECEMBER 31, 2017	<u><u>\$ 3,392,241</u></u>	<u><u>\$ 19,649</u></u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 351,199	\$ 1,103	\$ 352,302
	438,092		438,092
	629,266		629,266
	20,608	110	20,718
	66,233		66,233
13,396	35,691		35,691
	779,113		779,113
	750,000		750,000
	35,332	(1,296)	34,036
<u>\$ 13,396</u>	<u>\$ 3,105,534</u>	<u>\$ (83)</u>	<u>\$ 3,105,451</u>
\$	\$ 312,974	\$ 4,200	\$ 317,174
	370,152		370,152
	205,973		205,973
	15,569		15,569
	512,805		512,805
		362,057	362,057
100	271,870		271,870
403,333	732,455	(732,455)	
	435,000	(435,000)	
	480,060	(7,850)	472,210
<u>\$ 403,433</u>	<u>\$ 3,336,858</u>	<u>\$ (809,048)</u>	<u>\$ 2,527,810</u>
<u>\$ (390,037)</u>	<u>\$ (231,324)</u>	<u>\$ 808,965</u>	<u>\$ 577,641</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ (390,037)	\$ (231,324)	\$ 231,324	\$
		577,641	577,641
<u>6,549,328</u>	<u>9,802,505</u>	<u>(2,352,605)</u>	<u>7,449,900</u>
<u>\$ 6,159,291</u>	<u>\$ 9,571,181</u>	<u>\$ (1,543,640)</u>	<u>\$ 8,027,541</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, 2017**

Net Change in Fund Balances - Governmental Funds	\$ (231,324)
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.	1,103
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.	(1,186)
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.	(362,057)
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.	728,255
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.	435,000
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.	7,850
Change in Net Position - Governmental Activities	<u>\$ 577,641</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, 2017

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 (“GASB Codification”).

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017

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, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include 2016 taxes collected during the period October 1, 2016, to December 31, 2017. In addition, taxes collected from January 1, 2017, to December 31, 2017, for the 2015 and prior tax levies are included in revenue. The 2017 tax levy has been fully deferred to finance the District's 2018 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, 2017, the Debt Service Fund owes the General Fund \$180,106 for maintenance tax collections and the Capital Projects Fund owes the General Fund \$405 for engineering costs. During the current fiscal year, the General Fund transferred \$919,113 to the Debt Service Fund for debt service payments.

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, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service 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, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances 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, 2017	\$4,650,000	\$7,210,000
Interest Rates	3.00% - 5.50%	3.00% - 5.00%
Maturity Dates - Serially Beginning/Ending	March 1, 2018/2030	March 1, 2018/2039
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, 2017

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2017:

	January 1, 2017	Additions	Retirements	December 31, 2017
Bonds Payable	\$ 12,295,000	\$	\$ 435,000	\$ 11,860,000
Unamortized Bond Premiums	4,235		191	4,044
Bonds Payable, net	<u>\$ 12,299,235</u>	<u>\$ -0-</u>	<u>\$ 435,191</u>	<u>\$ 11,864,044</u>
		Amount Due Within One Year		\$ 450,000
		Amount Due After One Year		11,414,044
		Bonds Payable, net		<u>\$ 11,864,044</u>

As of December 31, 2017, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
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
2023-2027	3,200,000	1,550,173	4,750,173
2028-2032	3,060,000	904,465	3,964,465
2033-2037	2,110,000	437,800	2,547,800
2038-2039	990,000	42,500	1,032,500
	<u>\$ 11,860,000</u>	<u>\$ 5,002,707</u>	<u>\$ 16,862,707</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, 2017, 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, 2017, 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, 2017

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, 2017

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 \$8,817,509 and the bank balance was \$8,807,291. The District was not exposed to custodial credit risk at year-end.

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

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 65,280	\$ 2,375,145	\$ 2,440,425
DEBT SERVICE FUND	177,055		177,055
CAPITAL PROJECTS FUND	6,200,029		6,200,029
TOTAL DEPOSITS	\$ 6,442,364	\$ 2,375,145	\$ 8,817,509

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 1,075,455	\$ 1,075,455
Certificates of Deposit	2,375,145	2,375,145
<u>DEBT SERVICE FUND</u>		
TexPool	22,700	22,700
TOTAL INVESTMENTS	<u>\$ 3,473,300</u>	<u>\$ 3,473,300</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2017, the investment rating for TexPool was AAAM. The District also manages credit risk by investing in certificates of deposit covered by FDIC insurance.

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. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

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, 2017

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 is as follows:

	January 1, 2017	Increases	Decreases	December 31, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 134,299		\$	\$ 134,299
Construction in Progress	4,201	728,255	283,730	448,726
Total Capital Assets Not Being Depreciated	<u>\$ 138,500</u>	<u>\$ 728,255</u>	<u>\$ 283,730</u>	<u>\$ 583,025</u>
Capital Assets Subject to Depreciation				
Water System	\$ 5,197,270	\$ 51,346		\$ 5,248,616
Wastewater System	9,293,741	232,385		9,526,126
Total Capital Assets Subject to Depreciation	<u>\$ 14,491,011</u>	<u>\$ 283,731</u>	<u>\$ -0-</u>	<u>\$ 14,774,742</u>
Accumulated Depreciation				
Water System	\$ 1,766,539	\$ 119,540		\$ 1,886,079
Wastewater System	2,898,289	242,517		3,140,806
Total Accumulated Depreciation	<u>\$ 4,664,828</u>	<u>\$ 362,057</u>	<u>\$ -0-</u>	<u>\$ 5,026,885</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 9,826,183</u>	<u>\$ (78,326)</u>	<u>\$ -0-</u>	<u>\$ 9,747,857</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 9,964,683</u>	<u>\$ 649,929</u>	<u>\$ 283,730</u>	<u>\$ 10,330,882</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 \$0.0775 per \$100 of assessed valuation, which resulted in a tax levy of \$368,407 on the adjusted taxable valuation of \$474,317,152 for the 2017 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 2017 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 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.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8. CONTRACTS WITH OTHER DISTRICTS (Continued)

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 \$205,973 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, 2017. 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	\$ 210,124
Total Liabilities	<u>170,124</u>
Total Fund Balance	<u>\$ 40,000</u>
Total Revenues	\$ 505,390
Total Expenditures	<u>505,390</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 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.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9. LONE STAR GROUNDWATER CONSERVATION DISTRICT AND GROUNDWATER REDUCTION PLAN (Continued)

The Conservation District charges a fee, currently \$0.075 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.

During the current fiscal year, the District and District No. 3 sold available groundwater credits in the amount of \$1,500,000 to Porter Special Utility District. The District's share of proceeds from this transaction was \$750,000.

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.

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 \$491,535 and \$287,578 in contract revenues related to debt service and services provided, respectively, in accordance with the terms of the SPA.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017, \$2,860,000 remains in escrow.

NOTE 13. USE OF SURPLUS FUNDS

On June 27, 2017, the Commission approved the use of \$652,342 in surplus Capital Projects Fund monies to cover the cost of the natural gas emergency generator at water plant no. 1. During the current fiscal year, the District expended \$403,333 on the project and it was still in progress at year-end.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

**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, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 480,000	\$ 349,990	\$ (130,010)
Water Service	505,000	438,092	(66,908)
Wastewater Service	620,000	629,266	9,266
Groundwater Reduction Plan Fees	29,500		(29,500)
Penalty and Interest	11,000	9,674	(1,326)
Tap Connection and Inspection Fees	122,400	66,233	(56,167)
Investment Revenues	13,100	21,950	8,850
Contract Revenues	750,000	779,113	29,113
Sale of Groundwater Credits		750,000	750,000
Miscellaneous Revenues	<u>45,200</u>	<u>35,332</u>	<u>(9,868)</u>
TOTAL REVENUES	<u>\$ 2,576,200</u>	<u>\$ 3,079,650</u>	<u>\$ 503,450</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 325,800	\$ 310,842	\$ 14,958
Contracted Services	352,600	365,463	(12,863)
Purchased Wastewater Service	193,181	205,973	(12,792)
Utilities	14,000	15,569	(1,569)
Repairs and Maintenance	532,017	512,805	19,212
Other	274,580	271,668	2,912
Capital Outlay	<u>489,625</u>	<u>329,122</u>	<u>160,503</u>
TOTAL EXPENDITURES	<u>\$ 2,181,803</u>	<u>\$ 2,011,442</u>	<u>\$ 170,361</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 394,397</u>	<u>\$ 1,068,208</u>	<u>\$ 673,811</u>
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	<u>\$ (386,314)</u>	<u>\$ (919,113)</u>	<u>\$ (532,799)</u>
NET CHANGE IN FUND BALANCE	\$ 8,083	\$ 149,095	\$ 141,012
FUND BALANCE - JANUARY 1, 2017	<u>3,243,146</u>	<u>3,243,146</u>	
FUND BALANCE - DECEMBER 31, 2017	<u>\$ 3,251,229</u>	<u>\$ 3,392,241</u>	<u>\$ 141,012</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, 2017

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017

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>1,484</u>	<u>1,459</u>	x 1.0	<u>1,459</u>
1"	<u>67</u>	<u>65</u>	x 2.5	<u>163</u>
1½"	<u>3</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>10</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>1,567</u></u>	<u><u>1,539</u></u>		<u><u>1,789</u></u>
Total Wastewater Connections	<u><u>1,543</u></u>	<u><u>1,515</u></u>	x 1.0	<u><u>1,515</u></u>

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

Gallons billed to customers: 182,345,000* Water Accountability Ratio: 95.5%
(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 306,104,000 gallons. District No. 3 billed its customers for 110,062,000 gallons of usage.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely 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

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2017

PROFESSIONAL FEES:	
Auditing	\$ 11,750
Engineering	129,931
Legal	<u>169,161</u>
TOTAL PROFESSIONAL FEES	<u>\$ 310,842</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Wastewater Service	<u>\$ 205,973</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 37,499
Operations and Billing	<u>90,539</u>
TOTAL CONTRACTED SERVICES	<u>\$ 128,038</u>
UTILITIES:	
Electricity	\$ 15,562
Telephone	<u>7</u>
TOTAL UTILITIES	<u>\$ 15,569</u>
REPAIRS AND MAINTENANCE	<u>\$ 512,805</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 28,950
Insurance	23,008
Legal Notices	845
Office Supplies and Postage	20,024
Payroll Taxes	2,215
Travel and Meetings	<u>4,661</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 79,703</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2017

CAPITAL OUTLAY:	
Capitalized Assets	\$ 329,122
Expenditures Not Capitalized	
	<hr/>
TOTAL CAPITAL OUTLAY:	<u>\$ 329,122</u>
TAP CONNECTIONS	<u>\$ 33,263</u>
SOLID WASTE DISPOSAL	<u>\$ 237,425</u>
OTHER EXPENDITURES:	
Chemicals	\$ 82,405
Laboratory Fees	3,658
Permit Fees	42,528
Reconnection Fees	17,126
Inspection Fees	5,579
Regulatory Assessment	5,422
Other	1,984
	<hr/>
TOTAL OTHER EXPENDITURES	<u>\$ 158,702</u>
TOTAL EXPENDITURES	<u>\$ 2,011,442</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
INVESTMENTS
DECEMBER 31, 2017

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	\$ 1,075,455	\$
Certificate of Deposit	XXXX4348	0.75%	04/21/18	150,000	783
Certificate of Deposit	XXXX9888	1.21%	09/18/18	240,000	597
Certificate of Deposit	XXXX0319	1.15%	08/16/18	100,000	432
Certificate of Deposit	XXXX0320	1.25%	10/12/18	100,000	147
Certificate of Deposit	XXXX3595	1.05%	03/15/18	95,000	795
Certificate of Deposit	XXXX3152	1.27%	07/20/18	240,000	1,369
Certificate of Deposit	XXXX1906	1.10%	08/15/18	150,000	624
Certificate of Deposit	XXXX1848	0.65%	01/08/18	95,000	340
Certificate of Deposit	XXXX1004	0.50%	01/02/18	95,000	471
Certificate of Deposit	XXXX0133	0.70%	04/12/18	95,145	480
Certificate of Deposit	XXXX5477	0.62%	06/20/18	150,000	494
Certificate of Deposit	XXXX7287	0.50%	03/15/18	95,000	379
Certificate of Deposit	XXXX5226	0.69%	05/31/18	240,000	971
Certificate of Deposit	XXXX4478	0.85%	07/09/18	240,000	978
Certificate of Deposit	XXXX0097	0.40%	02/15/18	100,000	348
Certificate of Deposit	XXXX2852	0.80%	10/28/18	190,000	121
TOTAL GENERAL FUND				<u>\$ 3,450,600</u>	<u>\$ 9,329</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 22,700	\$ -0-
TOTAL - ALL FUNDS				<u>\$ 3,473,300</u>	<u>\$ 9,329</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2017

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JANUARY 1, 2017	\$ 191,428		\$ 28,653	
Adjustments to Beginning Balance	<u>(421)</u>	\$ 191,007	<u>(25)</u>	\$ 28,628
Original 2017 Tax Levy	\$ 368,864		\$	
Adjustment to 2017 Tax Levy	<u>(457)</u>	<u>368,407</u>	<u> </u>	<u> </u>
TOTAL TO BE ACCOUNTED FOR		\$ 559,414		\$ 28,628
 TAX COLLECTIONS:				
Prior Years	\$ 148,224		\$ 1,209	
Current Year	<u>205,916</u>	<u>354,140</u>	<u> </u>	<u>1,209</u>
 TAXES RECEIVABLE -				
DECEMBER 31, 2017		<u>\$ 205,274</u>		<u>\$ 27,419</u>
 TAXES RECEIVABLE BY YEAR:				
2017		\$ 162,491		\$
2016		5,942		
2015		2,469		
2014		5,751		1,078
2013		2,306		3,997
2012		3,577		2,598
2011		3,950		3,501
2010 and prior		<u>18,788</u>		<u>16,245</u>
TOTAL		<u>\$ 205,274</u>		<u>\$ 27,419</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 474,317,152</u>	<u>\$ 455,156,786</u>	<u>\$ 431,941,991</u>	<u>\$ 392,620,425</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.0000	\$ 0.0000	\$ 0.00	\$ 0.06
Maintenance	<u>0.0775</u>	<u>0.0775</u>	<u>0.08</u>	<u>0.32</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.0775</u>	<u>\$ 0.0775</u>	<u>\$ 0.08</u>	<u>\$ 0.38</u>
ADJUSTED TAX LEVY*	<u>\$ 368,407</u>	<u>\$ 352,748</u>	<u>\$ 345,561</u>	<u>\$ 1,492,079</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>55.89 %</u>	<u>98.32 %</u>	<u>99.29 %</u>	<u>99.54 %</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, 2017

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	
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				
	\$ 4,650,000	\$ 1,332,601	\$	5,982,601

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

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	
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
	\$ 7,210,000	\$ 3,670,106	\$	10,880,106

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
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>\$ 11,860,000</u>	<u>\$ 5,002,707</u>	<u>\$ 16,862,707</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, 2017

Description	Original Bonds Issued	Bonds Outstanding January 1, 2017
Montgomery County Utility District No. 4 Unlimited Tax Bonds - Series 2011	\$ 5,755,000	\$ 4,895,000
Montgomery County Utility District No. 4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2014	<u>7,750,000</u>	<u>7,400,000</u>
TOTAL	<u>\$ 13,505,000</u>	<u>\$ 12,295,000</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, 2017:		<u>\$ 199,755</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 766,487</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, 2017</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 245,000	\$ 191,597	\$ 4,650,000	The Bank Of New York Mellon Trust Company, N.A. Dallas, TX
	<u>190,000</u>	<u>288,463</u>	<u>7,210,000</u>	The Bank Of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 435,000</u>	<u>\$ 480,060</u>	<u>\$ 11,860,000</u>	

See accompanying independent auditor's report.

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

	<u>Amount</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES			
Property Taxes	\$ 349,990	\$ 352,818	\$ 1,244,656
Water and Wastewater Service	1,067,358	1,096,560	1,103,268
Groundwater Reduction Plan Fees		32,739	37,380
Penalty and Interest	9,674	10,257	10,262
Tap Connection and Inspection Fees	66,233	195,804	56,610
Investment Revenues	21,950	13,841	7,438
Contract Revenues	779,113	765,742	739,751
Capacity Reservation Fee			44,169
Sale of Asset			273,318
Sale of Groundwater Credits	750,000		
Miscellaneous Revenues	35,332	53,082	39,271
TOTAL REVENUES	<u>\$ 3,079,650</u>	<u>\$ 2,520,843</u>	<u>\$ 3,556,123</u>
EXPENDITURES			
Professional Fees	\$ 310,842	\$ 233,778	\$ 272,356
Contracted Services	365,463	345,129	338,801
Purchased Wastewater Service	205,973	187,997	223,545
Utilities	15,569	14,689	15,058
Repairs and Maintenance	512,805	549,865	411,671
Other	271,668	292,502	218,578
Capital Outlay	329,122	299,551	474,857
TOTAL EXPENDITURES	<u>\$ 2,011,442</u>	<u>\$ 1,923,511</u>	<u>\$ 1,954,866</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 1,068,208</u>	<u>\$ 597,332</u>	<u>\$ 1,601,257</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	<u>\$ (919,113)</u>	<u>\$ (636,576)</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	\$ 149,095	\$ (39,244)	\$ 1,601,257
BEGINNING FUND BALANCE	3,243,146	3,282,390	1,681,133
PRIOR PERIOD ADJUSTMENTS	<u> </u>	<u> </u>	<u> </u>
ENDING FUND BALANCE	<u>\$ 3,392,241</u>	<u>\$ 3,243,146</u>	<u>\$ 3,282,390</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2014	2013	2017	2016	2015	2014	2013
\$ 561,696	\$ 735,422	11.3 %	14.0 %	35.0 %	28.0 %	37.3 %
1,105,261	1,120,125	34.7	43.5	31.0	54.9	56.9
60,990	44,987		1.3	1.1	3.0	2.3
10,490	14,891	0.3	0.4	0.3	0.5	0.8
67,750	23,205	2.2	7.8	1.6	3.4	1.2
3,516	5,673	0.7	0.5	0.2	0.2	0.3
		25.3	30.4	20.8		
				1.2		
				7.7		
		24.4				
202,145	23,095	1.1	2.1	1.1	10.0	1.2
<u>\$ 2,011,848</u>	<u>\$ 1,967,398</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 291,041	\$ 250,322	10.1 %	9.3 %	7.7 %	14.5 %	12.7 %
305,432	112,759	11.9	13.7	9.5	15.2	5.7
257,927	213,631	6.7	7.5	6.3	12.8	10.9
15,511	13,187	0.5	0.6	0.4	0.8	0.7
574,257	685,188	16.7	21.8	11.6	28.5	34.8
246,146	585,286	8.8	11.6	6.1	12.2	29.7
184,981	231,435	10.7	11.9	13.4	9.2	11.8
<u>\$ 1,875,295</u>	<u>\$ 2,091,808</u>	<u>65.4 %</u>	<u>76.4 %</u>	<u>55.0 %</u>	<u>93.2 %</u>	<u>106.3 %</u>
<u>\$ 136,553</u>	<u>\$ (124,410)</u>	<u>34.6 %</u>	<u>23.6 %</u>	<u>45.0 %</u>	<u>6.8 %</u>	<u>(6.3) %</u>
<u>\$ -0-</u>	<u>\$ -0-</u>					
\$ 136,553	\$ (124,410)					
1,544,580	2,970,436					
	(1,301,446)					
<u>\$ 1,681,133</u>	<u>\$ 1,544,580</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		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 1,209	\$ 5,516	\$ 237,406
Penalty and Interest	10,934	11,526	14,063
Investment Revenues	345	103	136
Miscellaneous Revenues	<u> </u>	<u> </u>	<u>20</u>
TOTAL REVENUES	<u>\$ 12,488</u>	<u>\$ 17,145</u>	<u>\$ 251,625</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 5,673	\$ 4,967	\$ 15,961
Debt Service Principal	435,000	410,000	390,000
Debt Service Interest and Fees	<u>481,310</u>	<u>503,623</u>	<u>524,747</u>
TOTAL EXPENDITURES	<u>\$ 921,983</u>	<u>\$ 918,590</u>	<u>\$ 930,708</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (909,495)</u>	<u>\$ (901,445)</u>	<u>\$ (679,083)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	<u>\$ 919,113</u>	<u>\$ 882,374</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	\$ 9,618	\$ (19,071)	\$ (679,083)
BEGINNING FUND BALANCE	10,031	29,102	708,185
PRIOR PERIOD ADJUSTMENTS	<u> </u>	<u> </u>	<u> </u>
ENDING FUND BALANCE	<u>\$ 19,649</u>	<u>\$ 10,031</u>	<u>\$ 29,102</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>1,539</u>	<u>1,524</u>	<u>1,526</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>1,515</u>	<u>1,501</u>	<u>1,494</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2014	2013	2017	2016	2015	2014	2013
\$ 970,377	\$ 851,301	9.6 %	32.2 %	94.3 %	99.1 %	99.4 %
8,952	4,975	87.6	67.2	5.6	0.9	0.6
257	254	2.8	0.6	0.1		
<u>\$ 979,586</u>	<u>\$ 856,530</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 14,865	\$ 11,556	45.4 %	29.0 %	6.3 %	1.5 %	1.3 %
210,000	200,000	3,483.3	2,391.4	155.0	21.4	23.4
388,919	240,802	3,854.2	2,937.4	208.5	39.7	28.1
<u>\$ 613,784</u>	<u>\$ 452,358</u>	<u>7,382.9 %</u>	<u>5,357.8 %</u>	<u>369.8 %</u>	<u>62.6 %</u>	<u>52.8 %</u>
<u>\$ 365,802</u>	<u>\$ 404,172</u>	<u>(7,282.9) %</u>	<u>(5,257.8) %</u>	<u>(269.8) %</u>	<u>37.4 %</u>	<u>47.2 %</u>
<u>\$ -0-</u>	<u>\$ -0-</u>					
\$ 365,802	\$ 404,172					
342,383	(504,176)					
	442,387					
<u>\$ 708,185</u>	<u>\$ 342,383</u>					
<u>1,493</u>	<u>1,468</u>					
<u>1,470</u>	<u>1,445</u>					

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2017**

District Mailing Address - Montgomery County Utility District No. 4
c/o Coats Rose, 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, 2017</u>	Expense Reimbursements for the year ended <u>December 31, 2017</u>	<u>Title</u>
Gary S. North	05/2014 05/2018 (Elected)	\$ 7,200	\$ -0-	President
Maurice Williams	05/2016 05/2020 (Elected)	\$ 5,850	\$ 914	Vice President
Carl D. Clay	05/2016 05/2020 (Elected)	\$ 4,950	\$ -0-	Secretary
Mike Ganson	01/2016 05/2018 (Appointed)	\$ 4,950	\$ 478	Assistant Secretary/ Treasurer
Ronald R. Cunningham	05/2016 05/2020 (Elected)	\$ 6,000	\$ 885	Assistant Vice President/ Assistant Secretary- Treasurer

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 3, 2017.

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, 2017**

	<u>Date Hired</u>	Fees for the year ended <u>December 31, 2017</u>	<u>Title</u>
Coats Rose, P.C.	02/25/10	\$ 144,575	General Counsel
McCall Gibson Swedlund Barfoot PLLC	12/18/14	\$ 11,750	Auditor
Municipal Accounts & Consulting, LP	01/01/95	\$ 40,946	Bookkeeper
Linebarger Goggan Blair & Sampson, LLP		\$ 2,132	Delinquent Tax Attorney
Bleyl & Associates	06/18/02	\$ 175,154	Engineer
Robert W. Baird & Co. Incorporated	03/26/15	\$ -0-	Financial Advisor
Hays Utility North Corporation	04/01/95	\$ 941,169	Operator
Tammy J. McRae	03/01/95	\$ 403	Tax Assessor/ Collector
Katherine Turner	08/01/05	\$ -0-	Investment Officer

See accompanying independent auditor's report.

