

**Montgomery County
Municipal Utility District No. 7**

MONTGOMERY COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2014

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Independent Auditors' Report

Board of Directors
Montgomery County Municipal Utility District No. 7
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 7 (the "District") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 7 as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 34, respectively, 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 Texas Supplementary Information (TSI) listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

A handwritten signature in black ink, appearing to read "Sugar Land, Texas", followed by a stylized flourish.

Sugar Land, Texas
January 7, 2015

Management's Discussion and Analysis

As management of Montgomery County Municipal Utility District No. 7 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended September 30, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$9,231,977 (net position).
- As of September 30, 2014, the District's governmental funds reported an ending fund balance of \$1,258,145.
- The District's cash balance at September 30, 2014 was \$1,020,728, representing an increase of \$35,970 from September 30, 2013.
- The District had general revenues of \$3,965,113 and program revenues, net of expenses, of \$553,067 for the year ended September 30, 2014.
- At the end of the fiscal year, unrestricted and unassigned fund balance for the General Fund was \$433,509, or 14 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two 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.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation).

The government-wide financial statements present functions of the District that are provided from funding sources (governmental activities). The government-wide financial statements can be found on pages 10-13 of this report.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District consist solely of governmental funds (the General Fund and Debt Service Fund).

Governmental Funds - Governmental funds are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide an adjustments column to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 10-13 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 32 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's General Fund budget. Required supplementary information can be found on page 34 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9,231,977 as of September 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g. land and infrastructure), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.

Additionally, a portion of the District's net position represents unrestricted financial resources available for future operations.

SUMMARY OF STATEMENT OF NET POSITION
As of September 30, 2014 and 2013

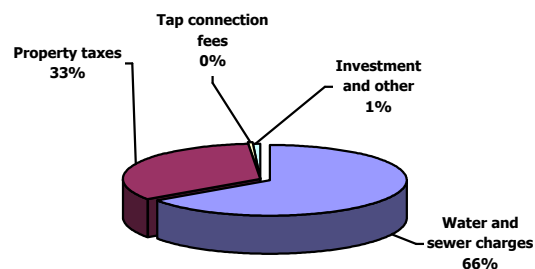
	Governmental Activities	
	2014	2013
Current and other assets	\$ 1,844,483	\$ 1,825,802
Capital assets, net	12,856,542	13,397,437
Total Assets	14,701,025	15,223,239
Long-term liabilities	4,883,202	5,971,332
Other liabilities	585,846	572,997
Total Liabilities	5,469,048	6,544,329
Net Position:		
Net investment in capital assets	7,973,340	7,426,105
Restricted	365,981	298,366
Unrestricted	892,656	954,439
Total Net Position	\$ 9,231,977	\$ 8,678,910

Net position of the District, all of which relate to governmental activities, increased by \$553,067. Key elements of the changes are as follows:

CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2014 and 2013

	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Water and sewer charges	\$ 2,589,176	\$ 2,664,283
Property taxes, penalties and interest	1,323,302	1,323,423
Tap connection fees	15,875	5,675
Investment income and other	36,760	36,635
Total Revenues	3,965,113	4,030,016
Expenses		
Purchased water and sewer	2,240,229	2,115,144
Professional fees, contracted services and other	576,840	549,456
Interest on long-term debt	232,497	272,624
Depreciation and amortization	362,480	376,865
Total Expenses	3,412,046	3,314,089
Change in Net Position	553,067	715,927
Net position, beginning	8,678,910	7,962,983
Net Position, Ending	\$ 9,231,977	\$ 8,678,910

2014 REVENUES



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's governmental funds are discussed below:

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of September 30, 2014, the District's governmental funds, which consist of a general fund and debt service fund reported an ending fund balance of \$1,258,145, which is an increase of \$2,682 from last year's total of \$1,254,463. As a measure of the general fund's liquidity, it may be useful to compare unrestricted and unassigned fund balance to total fund expenditures. Unreserved fund balance represents 14 percent of total general fund expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The District's investment in capital assets as of September 30, 2014 amounts to \$12,856,542 (net of accumulated depreciation). This investment in capital assets includes land and infrastructure.

CAPITAL ASSETS SCHEDULE (net of depreciation)

Land	\$ 8,536
Capacity rights	9,150,853
Water system	3,745,192
Wastewater system	3,967,016
Drainage system	4,063,120
Engineering	1,162,060
Less: accumulated depreciation	<u>(9,240,235)</u>
Total Capital Assets, Net	<u>\$ 12,856,542</u>

Additional information on the District's capital assets can be found in Note 7 in the notes to financial statements.

LONG-TERM DEBT

As of September 30, 2014, the District has a total bonded debt outstanding of \$3,800,000. Interest expense for the year totaled \$180,708 for the 2014 fiscal year on this bonded debt. There were no new issues in 2014. These outstanding bonds have maturities ranging from 2015 to 2021. Additional information on the District's long-term debt can be found in Note 8 in the notes to the financial statements.

ECONOMIC FACTORS

- Unrestricted and unassigned fund balance in the General Fund decreased to \$433,509. A increase of \$147,767 was projected.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Montgomery County Municipal Utility District No. 7's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery County Municipal Utility District No. 7: The Woodlands Joint Powers Agency, P.O. Box 7580, The Woodlands, Texas 77380.

FINANCIAL STATEMENTS

Montgomery County Municipal Utility District No. 7

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS **BALANCE SHEET**

September 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
<u>Assets</u>			
Cash and temporary investments	\$ 568,091	\$ 452,637	\$ 1,020,728
Receivables:			
Property taxes	1,898	10,594	12,492
Customer service accounts	352,608		352,608
Internal receivables	1,333		1,333
Investment in joint venture	458,655		458,655
Capital assets, net of accumulated depreciation:			
Land and capacity rights			
Infrastructure			
Total Assets	<u>\$ 1,382,585</u>	<u>\$ 463,231</u>	<u>\$ 1,845,816</u>
<u>Liabilities, Deferred Inflows and Fund Balances/Net Position</u>			
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 332,504	\$ 85,323	\$ 417,827
Customer deposits	156,019		156,019
Internal payables		1,333	1,333
Accrued interest payable			
Long-term liabilities:			
Unamortized bond premium or (discount)			
Due within one year			
Due after one year			
Total Liabilities	<u>488,523</u>	<u>86,656</u>	<u>575,179</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - property taxes	<u>1,898</u>	<u>10,594</u>	<u>12,492</u>
<u>Fund Balances/Net Position</u>			
Fund Balances:			
Nonspendable investment in joint venture	458,655		458,655
Restricted for debt service		365,981	365,981
Unrestricted and unassigned	433,509		433,509
Total Fund Balances	<u>892,164</u>	<u>365,981</u>	<u>1,258,145</u>
Total Liabilities and Fund Balances	<u>\$ 1,382,585</u>	<u>\$ 463,231</u>	<u>\$ 1,845,816</u>
Net Position:			
Net investment in capital assets			
Restricted for debt service			
Unrestricted			
Total Net Position			

Exhibit B(1)

Adjustments (Note 2)	Statement of Net Position
\$	\$ 1,020,728
	12,492
	352,608
(1,333)	458,655
9,159,389	9,159,389
3,697,153	3,697,153
<u>12,855,209</u>	<u>\$ 14,701,025</u>

\$	\$ 417,827
	156,019
(1,333)	12,000
12,000	5,577
5,577	1,136,886
1,136,886	3,740,739
3,740,739	<u>5,469,048</u>
<u>4,893,869</u>	

(12,492)

(458,655)
(365,981)
(433,509)
(1,258,145)

7,973,340	7,973,340
365,981	365,981
892,656	892,656
<u>\$ 9,231,977</u>	<u>\$ 9,231,977</u>

Montgomery County Municipal Utility District No. 7

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS **REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

Year Ended September 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
<u>Revenues</u>			
Water service	\$ 1,884,875	\$	\$ 1,884,875
Sewer service	704,301		704,301
Property taxes	256,545	1,063,076	1,319,621
Penalties and interest		4,823	4,823
Tap connection fees	15,875		15,875
Investment earnings	469	215	684
Other	36,076		36,076
Total Revenues	2,898,141	1,068,114	3,966,255
<u>Expenditures/Expenses</u>			
Current:			
Purchased water and sewer service	2,240,229		2,240,229
Purchased services from joint venture	441,455	17,616	459,071
Professional fees	17,069		17,069
Other	106,501	11,183	117,684
Capital Outlay:			
From joint venture	13,125		13,125
Debt Service:			
Principal	122,015	965,000	1,087,015
Interest and fiscal charges	51,789	184,000	235,789
Depreciation and amortization			
Total Expenditures/Expenses	2,992,183	1,177,799	4,169,982
Excess (Deficiency) of Revenues Over (Under) Expenditures	(94,042)	(109,685)	(203,727)
<u>Other Financing Sources (Uses)</u>			
Transfers	(177,300)	177,300	
Return of capital from SJRA	177,300		177,300
Equity in net income (loss) of joint venture	30,109		30,109
Total Other Financing Sources (Uses)	30,109	177,300	207,409
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(63,933)	67,615	3,682
Change in Net Position			
Fund Balances/Net Position - Beginning	956,097	298,366	1,254,463
Fund Balances/Net Position - Ending	\$ 892,164	\$ 365,981	\$ 1,258,145

See Notes to Financial Statements.

Adjustments (Note 2)	Statement of Activities
\$	\$ 1,884,875
	704,301
(1,142)	1,318,479
	4,823
	15,875
	684
	36,076
<u>(1,142)</u>	<u>3,965,113</u>
	2,240,229
(16,984)	442,087
	17,069
	117,684
(13,125)	
(1,087,015)	
(3,292)	232,497
362,480	362,480
<u>(757,936)</u>	<u>3,412,046</u>
756,794	
(177,300)	
<u>(30,109)</u>	
(207,409)	
(3,682)	
553,067	553,067
7,424,447	8,678,910
<u>\$ 7,973,832</u>	<u>\$ 9,231,977</u>

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Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform with generally accepted accounting principles. The following is a summary of the most significant policies:

A. Reporting Entity

Montgomery County Municipal Utility District No. 7 (the "District") was created by House Bill No. 1825, Acts of the 62nd Legislature of the State of Texas, Regular Session, 1971, which was passed pursuant to the terms and provisions of Chapters 49 and 54 of the Texas Water Code. The Board of Directors held its first meeting on July 1, 1971. The first bonds were sold on August 1, 1978. The District operates under the regulations of the Texas Commission on Environmental Quality.

The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees or related payroll costs.

The District is a political subdivision of the State of Texas governed by an elected five member board and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations, or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District participates in a joint venture with other area municipal utility districts as more fully described in Note 9 of these financial statements.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The District's primary activities include construction, maintenance, and operation of water and sewer system facilities and debt service on bonds issued to construct the facilities.

As noted above, the District participates in a joint venture with other area municipal utility districts (collectively the "Participating Districts"). As provided in interlocal contracts by and among the Participating Districts, an independently governed agency known as The Woodlands Joint Powers Agency (the "Agency") provides administrative services and utility system maintenance and operating services for the Participating Districts. The Agency is governed by a Board of Trustees made up of members appointed by the governing Boards of the Participating Districts. The District records and accounts for its interest in the Agency in its General Fund by the equity method, as do all of the Participating Districts, with a portion of General Fund equity reserved in the amount of the District's equity interest. See Note 9 for additional disclosures regarding the Agency's operations.

B. Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the District prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Some of the significant changes of GASB Statement No. 34 include the following:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis that private sector companies provide in their annual reports.

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure and general obligation debt). Accrual accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current or soon thereafter, as is the case with the modified accrual basis of accounting. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report related depreciation expense, the cost of "using up" capital assets, in the Statement of Activities.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The net position of a government is broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Fund Financial Statements - These statements focus on the District's major funds and are prepared using the modified accrual basis of accounting.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units, as applicable. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District had no business-type activities or component units as of and for the year ended September 30, 2014.

The governmental funds financial statements consist of the balance sheet and statement of revenues, expenditures and changes in fund balance. These financial statements have been adjusted to arrive at the government-wide financial statement balances (statement of net position and statement of activities). Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Revenues accrued include interest earned on investments and income from District operations. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service requirements, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable:

To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted:

To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed:

To indicate fund balance that can be used only for the specific purposes determined by a formal action of the Board of Directors (the District's highest level of decision-making authority).

Assigned:

To indicate fund balance to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned:

To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned.

GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The District does not currently have any such policies.

The accounting system is organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which comprise its assets, liabilities, fund equity or deficit, revenues and expenditures.

The District reports the following governmental funds:

General Fund

The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to water and sewer service operations. Expenditures include all costs associated with the daily operations of the District.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Debt Service Fund

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes pursuant to requirements of the District's bond resolutions. Expenditures include costs incurred in assessing and collecting these taxes.

E. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of unearned tax revenues.

F. Budget

An unappropriated budget is adopted for the General Fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

G. Investments

The District classifies investments that have a remaining maturity of one year or less at the date of purchase as "money market investments" in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Reporting for Certain Investments and External Investment Pools" (Statement No. 31). Statement No. 31 defines "money market investments" as short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations. The District values its "money market investments" at cost, which is considered to approximate market value. The District's certificates of deposit, if any, are recorded at cost in accordance with Statement No. 31.

H. Short-Term Interfund Receivables/Payables

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as "internal receivables" or "internal payables" on the combined balance sheet. These amounts are eliminated for government-wide presentation.

I. Unamortized Bond Premium or (Discount)

Included within long term liabilities are the unamortized bond premium or (discount). They are being amortized over the life of the related obligation on the straight-line method. Results obtained are not materially different from the interest method.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the government-wide financial statements. Capital assets, other than infrastructure items, are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Land	N/A
Capacity rights	N/A
Water system	30 years
Wastewater system	30 years
Drainage system	30-50 years
Engineering	30 years

K. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums or discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of any applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums or discounts, as well as bond issuance costs, during the current period. The face amount of new debt issued is reported as other financing sources. Premiums are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Fund Equity

Reserved/restricted equity balances represent those portions of fund balance/net position not appropriable for expenditures/expenses or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Undesignated/unrestricted fund balances/net position represent available balances for the District's future use.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

M. Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 7, 2015, the date that the financial statements were available to be issued.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes an adjustments column to arrive at the government-wide statement of net position balances. Amounts reported in the statement of net position are different because:

Total fund balances - governmental funds	\$ 1,258,145
Capital assets and deferred charges used in governmental activities are not financial resources and are not reported in the funds.	12,856,542
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	12,492
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	<u>(4,895,202)</u>
Net Position of Governmental Activities	<u><u>\$ 9,231,977</u></u>

Exhibit B(3)

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Investment Policies

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investments of the District are in compliance with its investment policy.

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds. Balances in checking accounts in depository institutions were entirely guaranteed by federal depository insurance or security as provided by statutes and bond provisions at September 30, 2014.

Investment Pools

The State Comptroller of Public Accounts exercises oversight responsibility of Texpool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in Texpool and other persons who do not have a business relationship with Texpool. The advisory board members review the investment policy and management fee structure. Texpool is rated AAAM by Standard & Poors. Texpool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Texstar operates as a pool in accordance with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Both Texpool and Texstar use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position of each pool is the same as the value of the underlying shares.

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operation.

Credit Risk – Investments

In accordance with its investment policy, the District minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. As the District's investments are in investment pools, the District is not exposed to custodial credit risk.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY TAXES

The voters of the District have authorized the District's Board of Directors to levy maintenance taxes annually for use in financing general operations limited to \$0.25 per \$100 of assessed value. The District's bond resolution requires that ad valorem taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied for debt service requirements are without limitation as to rate or amount.

All property values are determined by the Montgomery County Appraisal District. A tax lien attaches to all properties within the District on January 1st of each year. Taxes are generally levied on October 1 and are due upon receipt of the tax bill by the property owner. Penalties and interest are charged if taxes are not paid by the succeeding January 31st. There is an additional twenty percent penalty charged on accounts delinquent after July 1st of each year which generally is payable to the District's delinquent tax attorney.

Property taxes are prorated between operations and debt service based on the respective rates adopted for the year of the levy. For the current year, the District levied a combined rate of \$0.1645 per \$100 of assessed valuation of which \$0.1325 was allocated to debt service and \$0.032 was allocated to maintenance and operations. The resulting tax levy was \$1,320,655 on the adjusted taxable valuation of \$802,830,018 for the 2013 tax year.

Property taxes receivable at September 30, 2014, consisted of the following:

	General Fund	Debt Service Fund	Total
2013 Levy	\$ 835	\$ 3,456	\$ 4,291
2012 Levy	448	2,556	3,004
2011 Levy	311	1,771	2,082
2010 Levy	126	756	882
2009 and prior	178	2,055	2,233
	<u>\$ 1,898</u>	<u>\$ 10,594</u>	<u>\$ 12,492</u>

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES

Receivables as of year-end for the government's individual major funds are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Receivables:			
Taxes	\$ 1,898	\$ 10,594	\$ 12,492
Accounts	352,608		352,608
Total Receivables	<u>\$ 354,506</u>	<u>\$ 10,594</u>	<u>\$ 365,100</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable - general fund	\$ 1,898	\$
Delinquent property taxes receivable - debt service fund	10,594	
Total Deferred Revenue for Governmental Funds	<u>\$ 12,492</u>	<u>\$</u>

NOTE 6 – UNAMORTIZED BOND PREMIUM OR (DISCOUNT)

A summary of changes in the unamortized bond premium or (discount) follows:

	<u>Original Bond Premium (Discount)</u>	<u>Balance at Oct. 1, 2013</u>	<u>Current Year Amortization</u>	<u>Balance at Sept 30, 2014</u>
Unlimited Tax Bonds:				
Series 2003R	\$ 18,960	\$ 6,692	\$ 1,115	\$ 5,577
Total	<u>\$ 18,960</u>	<u>\$ 6,692</u>	<u>\$ 1,115</u>	<u>\$ 5,577</u>

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2014, follows:

	<u>Balance Oct 1, 2013</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance Sept 30, 2014</u>
Governmental Activities:				
Non-depreciable Assets:				
Land	\$ 8,536	\$	\$	\$ 8,536
Capacity rights	9,328,153		(177,300)	9,150,853
Total Non-depreciable Assets	<u>9,336,689</u>		<u>(177,300)</u>	<u>9,159,389</u>
Depreciable Assets:				
Water system	3,745,192			3,745,192
Wastewater system	3,967,016			3,967,016
Drainage system	4,063,120			4,063,120
Engineering	1,162,060			1,162,060
Total Depreciable Assets	<u>12,937,388</u>			<u>12,937,388</u>
Less Accumulated Depreciation	<u>(8,876,640)</u>	<u>(363,595)</u>		<u>(9,240,235)</u>
Totals	<u>\$ 13,397,437</u>	<u>\$ (363,595)</u>	<u>\$ (177,300)</u>	<u>\$ 12,856,542</u>

Depreciation expense for the year ended September 30, 2014, totaled \$363,595.

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of bonds payable. Payments of principal and interest on the bonds are to be provided from tax levies on properties within the District. Investment income realized by the Debt Service Fund from investment of funds will be used to pay outstanding bond principal and interest.

The following is a summary of changes in bonds payable for the year ended September 30, 2014:

Bonds payable, October 1, 2013	\$ (4,765,000)
Bonds sold	
Bonds refunded	
Bonds retired	<u>(965,000)</u>
Bonds payable, Sept. 30, 2014	<u>\$ (5,730,000)</u>

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Bonds payable at September 30, 2014, are comprised of the following individual issues:

	<u>Amounts Outstanding</u>	<u>Interest Rate</u>	<u>Date Serially Begin/End</u>	<u>Maturity Interest Dates</u>	<u>Callable Date</u>
2003 R	\$ 170,000	2.50%- 4.25%	March 1 2011/2019	Sept. 1/ March 1	March 1, 2011*
2011 R	\$3,630,000	3.00%- 4.50%	March 1 2011/2021	Sept. 1/ March 1	March 1, 2018*

* Or any interest payment date thereafter in accordance with redemption provisions of the bond resolution.

As of September 30, 2014, the debt service requirements on bonds outstanding for the next five fiscal years and thereafter through 2021 are as follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,010,000	\$ 144,000	\$ 1,154,000
2016	1,055,000	100,063	1,155,063
2017	1,120,000	51,125	1,171,125
2018	230,000	20,750	250,750
2019	235,000	10,744	245,744
2020-2021	150,000	6,156	156,156
	<u>\$ 3,800,000</u>	<u>\$ 332,838</u>	<u>\$ 4,132,838</u>

At September 30, 2014, the District had voted and unissued tax bonds in the amount of \$4,300,000.

The Debt Service Fund has \$365,981 available to service the above bonds.

The District is in compliance with all significant bond requirements and restrictions contained in the bond resolutions.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – JOINT VENTURE – THE WOODLANDS JOINT POWERS AGENCY

The District has entered into interlocal contracts with other area municipal utility districts (collectively the "Participating Districts") to create the Woodlands Joint Powers Agency (the "Agency"). The contracts provide for the Agency to purchase certain equipment and supplies, to install taps and connections to the Participating District's water and sewer systems, to perform required repair and maintenance work on these systems and to provide certain administrative services for the Participating Districts.

Each Board of the Participating Districts appoints one of its members to the Agency's Board of Trustees annually. The Agency's Board of Trustees controls the operations of the Agency, which includes adopting operating and capital budgets.

The Agency's summary financial position at September 30, 2014 is presented below:

Total Assets	\$ 3,155,821
Total Liabilities	181,277
Net Assets	<u>\$ 2,974,544</u>

The Participating Districts account for their share of the Agency's net position on the equity method in their General Funds. Each Participating District's respective shares are determined based on their proportionate share of cash contributions and all other cash payments and contributions made to the Agency on a cumulative basis.

At September 30, 2014, the Agency's net position is allocated among the Participating Districts as follows:

The Woodlands MUD No. 2	\$ 65,791
Montgomery County MUD No. 6	367,950
Montgomery County MUD No. 7	458,655
Montgomery County MUD No. 36	397,403
Montgomery County MUD No. 39	62,167
Montgomery County MUD No. 40	339,842
Montgomery County MUD No. 46	316,690
Montgomery County MUD No. 47	444,292
Montgomery County MUD No. 60	271,974
Montgomery County MUD No. 67	183,635
The Woodlands Metro Center MUD	<u>66,145</u>
	<u>\$ 2,974,544</u>

Each Participating District's share of participants' equity at September 30, 2014 includes an initial contribution of \$7,500, which will not be refunded except on withdrawal from the Agency or termination of the interlocal contracts.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The Agency's summary operating results for the year ended September 30, 2014 are presented below along with the District's related share:

	<u>Agency</u>	<u>District</u>
Total Revenues	\$ 5,428,816	\$ 475,096
Total Expenses	<u>5,084,767</u>	<u>444,987</u>
Revenues Over (Under) Expenses	344,049	30,109
Participant distributions	(333,536)	(30,896)
Participants' Equity - Beginning	<u>2,964,031</u>	<u>459,442</u>
Participants' Equity - Ending	<u>\$ 2,974,544</u>	<u>\$ 458,655</u>

Charges for the Agency's operating costs are based on the Participating District's number of monthly water and sewer billings, tap connections and direct costs incurred. During the year ended September 30, 2014, the District's contribution for the Agency's costs was made up of the following charges:

Tax administration	\$ 17,616
Administration	201,060
Engineering	17,471
Meter reading	32,639
Water repair and maintenance	81,661
Sewer repair and maintenance	15,496
Billing income	11,511
Large ditch repair and maintenance	29,573
Storm sewer repair and maintenance	16,561
Postage	12,840
Other	13,292
Capital budget contribution	9,351
Water tap installation	5,650
Connections and inspections	7,475
	<u>\$ 472,196</u>

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – FINANCING AGREEMENTS WITH SAN JACINTO RIVER AUTHORITY

The District has entered into a series of financing agreements with the San Jacinto River Authority (SJRA). The agreements are for design, construction and other improvements to The Woodlands Waste Disposal System Project and The Woodlands Water Supply System Project. The agreements include provisions for advances to be made by the District in the initial stages of the project under certain circumstances. The District has made no advances in the fiscal year ended September 30, 2014.

The District's financing agreements with the SJRA also provide for the allocation of pro rata shares of SJRA revenue bond principal and interest to the District proportionate to the District's interest in the portion of project financed.

The District's proportionate share of the total revenue bond obligations of the SJRA varies by project. During the year ended September 30, 2014, the District funded \$173,804 from the General Fund relating to the obligations of which \$122,015 was for principal and \$51,789 was for interest.

The following reflects the District's portion of existing debt of the SJRA for both the Waste Disposal System Project and the Water Supply System Project. The debt bears interest at varying rates and matures in 2030.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 126,886	\$ 46,651	\$ 173,537
2016	57,184	42,584	99,768
2017	89,581	39,514	129,095
2018	92,837	35,590	128,427
2019	96,720	31,271	127,991
2020-2024	279,781	107,177	386,958
2025-2029	272,597	48,535	321,132
2030	62,039	1,473	63,512
	<u>\$ 1,077,625</u>	<u>\$ 352,795</u>	<u>\$ 1,430,420</u>

NOTE 11 – CONTRACT WITH SAN JACINTO RIVER AUTHORITY

The District has contracted with the SJRA to provide its customers with water and sewer utility services through planning, construction, operation and maintenance of central water supply and waste disposal facilities. The initial contract was entered into on September 27, 1983, and continues in full force and effect unless terminated by mutual agreement of the District and the SJRA. Thereafter, the District retains a proportionate and equitable ownership interest in such central facilities.

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Under the terms of the agreement, the District pays its proportionate share of capital and operating costs for reserved capacity in the water supply and waste disposal facilities. Capital payments have come from the proceeds of bonds issued by the District and are included as capital assets. Operating costs are recorded as current expenditures in the District's General Fund. During the year ended September 30, 2014, the District paid \$2,240,229 for its share of operating costs. Pursuant to the agreement and a resolution approved by the SJRA on August 28, 2014, the SJRA maintains reserve funds for operation of the water supply and waste disposal facilities to cover cash flow needs year round in an amount ranging between two and three months of total operating costs, excluding costs related to the payment of groundwater reduction plan fees. This operating reserve changes during the year based on available funds and changes in operating conditions. No amounts have been recorded on the District's financial statements to reflect the District's share of this reserve. The SJRA also maintains reserve funds in accordance with the agreement and resolution for the planned repair and replacement of water supply and waste disposal facilities having a significant replacement value and a relatively long useful life (generally in excess of ten years). The amount of such reserve varies from year to year based upon a five year capital improvement and construction plan developed, maintained and annually updated by the SJRA. No amounts have been recorded on the District's financial statements to reflect the District's share of this reserve.

Pursuant to the agreement and the resolution, the SJRA also maintains an emergency reserve for purpose of providing funding for unexpected catastrophic events. The emergency reserve is funded periodically by the District and other participating districts from available sources. The amount of such reserve varies from year to year pursuant to the resolution. No amounts have been recorded on the District's financial statements to reflect the District's share of this reserve.

The relationship between the SJRA and its customer districts is purely contractual. The SJRA is a separate functioning governmental entity whose management and Board of Directors are not subject to the control of the customer districts. The District, together with other area municipal utility districts with similar contracts with the SJRA (collectively the "Customer Districts"), contracts directly with the SJRA for required facilities and does not have a contract with other Customer Districts. The SJRA is not a participating facility user.

The SJRA serves as the sponsor and common provider to each of its Customer Districts of facilities and related services and has full legal title and ownership to facilities, subject only to the contractual rights of the Customer Districts to receive services.

The SJRA invests its own capital funds in the construction and acquisition of the required facilities. Each Customer District makes a payment to the SJRA to defray the costs of construction of capital facilities proportionate to the contractual rights of use (or capacity rights) of such customer pursuant to its contract with the SJRA. Thus, each Customer District has invested from its bond proceeds capital funds in the acquisition of such contract rights;

Montgomery County Municipal Utility District No. 7

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

however, no Customer District owns nor has legal title to all or any portion of the physical facilities providing such services.

Under these circumstances, the District's relationship with the SJRA is not considered to constitute either a shared facilities agreement or a joint venture arrangement. Disclosure has been made that a substantial portion of water and sewer facility costs in the District's general fixed assets consist of the District's investment in the acquisition of contractual rights of use, rather than ownership of facilities.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

NOTE 13 – ANNEXATION DEFERRAL AGREEMENT

The District and the adjacent Woodlands Municipal Utility Districts (the "Woodlands Districts") are located entirely within The Woodlands Township, a political subdivision of the State of Texas which overlaps substantially all of The Woodlands. The Township has recently concluded agreements with the City of Houston and the City of Conroe pursuant to which the area of the Township, including the Woodlands Districts, may not be annexed for fifty (50) years, and the area of the Township may, on or after May 29, 2014, and on request by the Township, be excluded from the extraterritorial jurisdiction of either or both cities, and may thereafter be incorporated as a municipality or may adopt a new form of local government. In the event of incorporation of the Township, the Township must dissolve the Woodlands Districts and assume the assets, obligations and liabilities of the Woodlands Districts.

REQUIRED SUPPLEMENTARY INFORMATION

Montgomery County Municipal Utility District No. 7

Exhibit C(1)

SCHEDULE OF REVENUES, EXPENDITURES AND **CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -** **GENERAL FUND**

Year Ended September 30, 2014

	Budgeted Amounts			Variance Over (Under)
	Original	Final	Actual	
Revenues				
Water and sewer service	\$ 3,109,461	\$ 3,109,461	\$ 2,589,176	\$ (520,285)
Property taxes	257,184	257,184	256,545	(639)
Tap connection fees			15,875	15,875
Interest on investments	945	945	469	(476)
Other	7,925	7,925	36,076	28,151
Total Revenues	<u>3,375,515</u>	<u>3,375,515</u>	<u>2,898,141</u>	<u>(477,374)</u>
Expenditures				
Current:				
Purchased water and sewer	2,455,624	2,455,624	2,240,229	(215,395)
Purchased services	471,218	471,218	441,455	(29,763)
Professional fees	24,200	24,200	17,069	(7,131)
Other	100,643	100,643	106,501	5,858
Capital Outlay:				
From joint venture and other			13,125	13,125
Debt Service:				
Principal	122,015	122,015	122,015	
Interest and fiscal charges	54,048	54,048	51,789	(2,259)
Total Expenditures	<u>3,227,748</u>	<u>3,227,748</u>	<u>2,992,183</u>	<u>(235,565)</u>
Excess (Deficiency) of Revenue:				
Over (Under) Expenditures	147,767	147,767	(94,042)	(241,809)
Other Financing Source (Use)				
Transfers	(177,292)	(177,292)	(177,300)	(8)
Return of capital from SJRA	177,292	177,292	177,300	8
Equity in net income of JV			30,109	30,109
Excess (Deficiency) of Revenues and Other Financing Source Over (Under) Expenditures	147,767	147,767	(63,933)	(211,700)
Fund Balances - Beginning	956,097	956,097	956,097	
Fund Balances - Ending	<u>\$ 1,103,864</u>	<u>\$ 1,103,864</u>	<u>\$ 892,164</u>	<u>\$ (211,700)</u>

ADDITIONAL INFORMATION

Montgomery County Municipal Utility District No. 7

SCHEDULE OF SERVICES AND RATES

Year Ended September 30, 2014

1. Services provided by the District:

<input checked="" type="checkbox"/>	Retail Water	_____	Wholesale Water	<input checked="" type="checkbox"/>	Drainage
<input checked="" type="checkbox"/>	Retail Sewer	_____	Wholesale Sewer	_____	Irrigation
_____	Parks/Recreation	_____	Fire Protection	_____	Security
_____	Solid Waste/Garbage	_____	Flood Control	_____	Roads
<input checked="" type="checkbox"/>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
_____	Other (specify): _____				

2. Retail rates based on 5/8" meter

Retail rates not applicable

The most prevalent type of meter (if not a 5/8"):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons Over Minimum	Usage Levels
Water	\$ 5.00	_____	N	\$ 1.38	1,000 - 3,000
Water	_____	_____	N	\$ 2.75	4,000 - 15,000
Water	_____	_____	N	\$ 4.15	16,000 - 30,000
Water	_____	_____	N	\$ 5.50	31,000 - >
Waste	\$10.35	3,000	N	\$ 3.45	per 1,000
Surcharge	\$ 1.75	Per 1,000 Groundwater Reduction Plan Fee			
District employs winter averaging for wastewater usage?					Yes <input checked="" type="checkbox"/> No _____
Total water and sewer charges per 10,000 gallons usage (including surcharges)					\$93.21

3. Retail Service Providers: Number of retail water and/or wastewater* connections within the District as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC) as noted:

	Active Connections	Active ESFC	Inactive Connections**
Single Family	2,963	2,963	14
Multi-Family	10	1,061	
Commercial	35	100	2
Other - recreational centers, government & VFD	68	193	
TOTAL	3,076	4,317	16

* Number of connections relates to water service, if provided. Otherwise, the number of wastewater connections should be provided.

** "Inactive" means that water and wastewater connections were made, but service is not being provided.

4. Total Water Consumption (In Thousands) During the Fiscal Year:

Gallons pumped into system:	N/A
Gallons billed to customers:	382,000
Percent of gallons billed to pumped	N/A

5. Standby Fees: Does the District assess standby fees? Yes ___ No X

For the most recent full fiscal year:

Debt Service:	Total levy	\$ _____
	Total collected	\$ _____
	Percentage collected	_____ %
Operation & Maintenance	Total levy	\$ _____
	Total collected	\$ _____
	Percentage collected	_____ %

Have standby fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property? Yes ___ No ___

6. Location of District:County in which District is located. MontgomeryIs the District located entirely within one county? Yes X No ___Is the District located within a city? Entirely ___ Partly ___ Not at all X

City in which District is located. _____

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

Entirely X Partly ___ Not at all ___ETJ's in which District is located. Houston

Is the general membership of the Board appointed by an office outside the District?

Yes ___ No X

If yes, by whom? _____

Montgomery County Municipal Utility District No. 7

TSI-2

SCHEDULE OF GENERAL FUND EXPENDITURES

Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Current		
Purchased Water and Sewer Services from SJRA	<u>\$ 2,240,229</u>	<u>\$ 2,115,144</u>
 Purchased Services from Joint Venture	<u>441,455</u>	<u>431,867</u>
 Professional Fees:		
Auditing	4,200	4,200
Legal	<u>12,869</u>	<u>20,237</u>
	<u>17,069</u>	<u>24,437</u>
 Other Current Expenditures:		
Directors' fees	12,750	13,650
Insurance	2,700	2,600
Regulatory assessment	21,296	20,594
Bank charges	25,476	22,027
Bear Branch	32,648	4,897
Miscellaneous	<u>11,631</u>	<u>19,457</u>
	<u>106,501</u>	<u>83,225</u>
 Capital Outlay	<u>13,125</u>	<u>5,100</u>
 Debt Service:		
Principal	122,015	118,037
Interest and fiscal charges	<u>51,789</u>	<u>58,351</u>
	<u>173,804</u>	<u>176,388</u>
 Total Expenditures	<u><u>\$ 2,992,183</u></u>	<u><u>\$ 2,836,161</u></u>

Number of employees employed by the District:

_____ Full-time
_____ Part-time

Montgomery County Municipal Utility District No. 7

TSI-3

SCHEDULE OF CASH AND TEMPORARY INVESTMENTS

Year Ended September 30, 2014

<u>Funds</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Balances at September 30, 2014</u>	<u>Accrued Interest</u>
<u>General Fund</u>				
Checking	N/A	N/A	\$ 118,455	\$
Texpool	Variable	N/A	106,949	
Texstar	Variable	N/A	85,548	
Certificate of deposit	0.15	5/10/2015	257,139	
Total General Fund			568,091	
<u>Debt Service Fund</u>				
Checking	N/A	N/A	7,119	
Texpool	Variable	N/A	228,622	
Texstar	Variable	N/A	216,896	
Total Debt Service Fund			452,637	
Total - All Funds			\$ 1,020,728	\$

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Montgomery County Municipal Utility District No. 7

TSI-4

ANALYSIS OF TAXES LEVIED AND RECEIVABLE

Year Ended September 30, 2014

	General Fund	Debt Service Fund	Total
Taxes receivable - October 1, 2013	\$ 1,840	\$ 11,794	\$ 13,634
2013 Original tax roll	256,824	1,063,412	1,320,236
Additions and corrections	(221)	(1,536)	(1,757)
Adjusted tax roll	256,603	1,061,876	1,318,479
Total to be Accounted for	258,443	1,073,670	1,332,113
<u>Tax Collections</u>			
Current year	256,071	1,060,294	1,316,365
Prior years	474	2,782	3,256
Total Collections	256,545	1,063,076	1,319,621
Taxes Receivable - September 30, 2014	\$ 1,898	\$ 10,594	\$ 12,492

Taxes Receivable - By Year

2013	\$ 835	\$ 3,456	\$ 4,291
2012	448	2,556	3,004
2011	311	1,771	2,082
2010	126	756	882
2009 and prior	178	2,055	2,233
Taxes Receivable - September 30, 2014	\$ 1,898	\$ 10,594	\$ 12,492

<u>Assessed</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Property Valuations</u>					
Land, improvements and personal property	\$ 802,830,018	\$ 787,429,086	\$ 772,888,615	\$ 750,857,486	\$ 745,891,200
	<u>\$ 802,830,018</u>	<u>\$ 787,429,086</u>	<u>\$ 772,888,615</u>	<u>\$ 750,857,486</u>	<u>\$ 745,891,200</u>
<u>Tax Rates Per \$100</u>					
<u>Valuations</u>					
Debt service	\$ 0.1325	\$ 0.1425	\$ 0.1425	\$ 0.150	\$ 0.160
General operations	0.0320	0.0250	0.0250	0.025	0.015
Total Tax Rate per					
\$100 Valuation	<u>\$ 0.1645</u>	<u>\$ 0.1675</u>	<u>\$ 0.1675</u>	<u>\$ 0.175</u>	<u>\$ 0.175</u>
Adjusted Tax Levy	<u>\$ 1,320,655</u>	<u>\$ 1,318,944</u>	<u>\$ 1,294,588</u>	<u>\$ 1,314,001</u>	<u>\$ 1,305,310</u>

Year Ended September 30, 2014

Percent of current taxes collected to current taxes levied (as adjusted)	<u>All Taxes</u> 99.8%
Percent of current and delinquent taxes collected to current levied (as adjusted) and delinquent taxes outstanding at the beginning of the year (as adjusted)	99.1%

Montgomery County Municipal Utility District No. 7

TSI-5

GENERAL LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS

September 30, 2014

Due During Fiscal Year End September 30	All Series			Series 2003 - Refunding		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 1,010,000	\$ 144,000	\$ 1,154,000	\$	\$ 7,225	\$ 7,225
2016	1,055,000	100,063	1,155,063		7,225	7,225
2017	1,120,000	51,125	1,171,125		7,225	7,225
2018	230,000	20,750	250,750		7,225	7,225
2019	235,000	10,744	245,744	170,000	3,613	173,613
2020	70,000	4,556	74,556			
2021	80,000	1,600	81,600			
Total	\$ 3,800,000	\$ 332,838	\$ 4,132,838	\$ 170,000	\$ 32,513	\$ 202,513

Due During Fiscal Year End September 30	Series 2010 - Refunding		
	Principal	Interest	Total
2015	\$ 1,010,000	\$ 136,775	\$ 1,146,775
2016	1,055,000	92,838	1,147,838
2017	1,120,000	43,900	1,163,900
2018	230,000	13,525	243,525
2019	65,000	7,131	72,131
2020	70,000	4,556	74,556
2021	80,000	1,600	81,600
Total	\$ 3,630,000	\$ 300,325	\$ 3,930,325

Montgomery County Municipal Utility District No. 7

TSI-6

ANALYSIS OF CHANGES IN GENERAL LONG-TERM DEBT

Year Ended September 30, 2014

	Bond Issues		Total
	2003R	2010R	
Interest rate	2.5-4.25%	3.0-4.5%	
Dates interest payable	9/1;3/1	9/1;3/1	
Maturity dates	3/1/04- 3/1/19	3/1/11- 3/1/21	
Original issue amount	\$ 7,590,000	\$ 5,965,000	
Bonds payable at beginning of year	\$ 170,000	\$ 4,595,000	\$ 4,765,000
Bonds sold			
Bonds refunded			
Principal retirements		(965,000)	(965,000)
Bonds Payable at End of Year	<u>\$ 170,000</u>	<u>\$ 3,630,000</u>	<u>\$ 3,800,000</u>
Interest Retirements	<u>\$ 7,225</u>	<u>\$ 176,275</u>	<u>\$ 183,500</u>

Paying Agent/Registrar

All Series

Bank of New York

Bond Authority	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 30,465,000	\$	\$ 18,300,000
Amount issued	\$ 26,165,000	\$	\$ 18,300,000
Remaining	\$ 4,300,000	\$	\$
Debt Service Fund Cash and Temporary Investment Balances at End of Year			<u>\$ 452,637</u>
Average Annual Debt Service Payment for Remaining Term of all Debt			<u>\$ 590,405</u>

Montgomery County Municipal Utility District No. 7

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS

Last Five Fiscal Years

	Amounts				
	2014	2013	2012	2011	2010
General Fund Revenues					
Water and sewer service	\$ 2,589,176	\$ 2,664,283	\$ 2,575,126	\$ 2,278,050	\$ 1,670,222
Property taxes	256,545	196,639	192,904	186,611	111,502
Tap connections & culverts	15,875	5,675	1,800	19,850	4,200
Interest and other	36,545	9,947	6,620	6,023	9,245
Total Revenues	<u>2,898,141</u>	<u>2,876,544</u>	<u>2,776,450</u>	<u>2,490,534</u>	<u>1,795,169</u>
General Fund Expenditures					
Current	2,805,254	2,654,673	2,569,853	2,358,051	1,710,170
Capital outlay	13,125	5,100	1,800	12,250	3,175
Debt service	173,804	176,388	175,013	189,857	173,487
Total Expenditures	<u>2,992,183</u>	<u>2,836,161</u>	<u>2,746,666</u>	<u>2,560,158</u>	<u>1,886,832</u>
Revenues Over (Under) Expenditures	<u>\$ (94,042)</u>	<u>\$ 40,383</u>	<u>\$ 29,784</u>	<u>\$ (69,624)</u>	<u>\$ (91,663)</u>
Debt Service Fund Revenues					
Property taxes	\$ 1,063,076	\$ 1,121,257	\$ 1,099,974	\$ 1,121,561	\$ 1,189,778
Penalty and interest	4,823	4,775	4,176	5,750	7,264
Interest	215	26,688	623	849	1,116
Total Revenues	<u>1,068,114</u>	<u>1,152,720</u>	<u>1,104,773</u>	<u>1,128,160</u>	<u>1,198,158</u>
Debt Service Fund Expenditures					
Tax collection	28,799	26,823	24,041	25,280	24,364
Debt service	1,149,000	1,132,025	1,109,913	1,079,538	1,037,508
Total Expenditures	<u>1,177,799</u>	<u>1,158,848</u>	<u>1,133,954</u>	<u>1,104,818</u>	<u>1,061,872</u>
Revenues Over (Under) Expenditures	<u>\$ (109,685)</u>	<u>\$ (6,128)</u>	<u>\$ (29,181)</u>	<u>\$ 23,342</u>	<u>\$ 136,286</u>

Percent of Total Fund Revenues				
2014	2013	2012	2011	2010
89.3 %	92.6 %	92.7 %	91.5 %	93.0 %
8.9	6.8	6.9	7.5	6.2
0.5	0.2	0.1	0.8	0.2
1.3	0.5	0.3	0.2	0.6
100.0	100.0	100.0	100.0	100.0
96.8	92.3	92.6	94.7	95.3
0.5	0.2	0.1	0.5	0.2
6.0	6.1	6.3	7.6	9.7
103.3	98.6	99.0	102.8	105.2
(3.3) %	1.4 %	1.0 %	(2.8) %	(5.2) %
99.5 %	97.3 %	99.6 %	99.4 %	99.3 %
0.5	0.4	0.4	0.5	0.7
(0.1)	2.3		0.1	
100.0	100.0	100.0	100.0	100.0
2.7	2.3	2.2	2.2	2.0
107.6	98.2	100.5	95.7	86.6
110.3	100.5	102.7	97.9	88.6
(10.3) %	(0.5) %	(2.7) %	2.1 %	11.4 %

Montgomery County Municipal Utility District No. 7

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

September 30, 2014

District's Mailing Address: 2455 Lake Robbins Drive
P.O. Box 7580
The Woodlands, Texas 77380

District's Business Telephone Number: (281) 367-1271

<u>Name</u>	<u>Term</u>	<u>Fees</u>	<u>Expenses</u>	<u>Title</u>	<u>Resident of District?</u>
<u>Board Members</u>					
Dave Weir	5/14- 5/18	\$ 2,700	\$ 1,736	President	Yes
Kyle Mays	5/14- 5/18	4,200		Vice- President WJPA Trustee	Yes
Bob Hoffmeister	5/12- 5/16	1,350		Assistant Vice President	Yes
Henry M. Cheek	5/14- 5/18	3,450	1,979	Secretary/ Treasurer	Yes
Rhenelea Beck	5/12- 5/16	1,050		Assistant Secretary/ Treasurer	Yes

Note: No director is disqualified from serving on this board under the Texas Water Code.

<u>Name and Address</u>	<u>Date Hired</u>	<u>Salaries and Fees</u>	<u>Title</u>	<u>Resident of District?</u>
<u>Key Administrative Personnel</u>				
Jim Stinson 42 Gallant Oak Place The Woodlands, Texas 77381	7/94	\$ 175,990 *	General Manager Woodlands JPA	No
<u>Consultants</u>				
Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 1400 Houston, Texas 77056	3/1/88	12,503	Attorney	No
Montgomery County Appraisal District 109 Gladstell Conroe, Texas 77301	10/1/84	9,585	Central Appraisal District	No
Sandersen Knox & Co., L.L.P. 130 Industrial Blvd., Suite 130 Sugar Land, Texas 77478	8/1/01	3,800	Independent Auditor	No
RBC Capital Markets 1001 Fannin, Suite 500 Houston, Texas 77002	11/13/89	0	Financial Advisor	No

* Represents the General Manager's salary paid by the JPA.

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