

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

APRIL 30, 2018

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

APRIL 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-11
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	13-14
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	15
NOTES TO THE FINANCIAL STATEMENTS	16-27
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND	29
SUPPLEMENTARY INFORMATION – REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	31-33
GENERAL FUND EXPENDITURES	34-35
INVESTMENTS	36
TAXES LEVIED AND RECEIVABLE	37-38
LONG-TERM DEBT SERVICE REQUIREMENTS	39
CHANGE IN LONG-TERM BOND DEBT	40-41
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	42-45
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	46-47

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 261
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 261 (the "District"), as of and for the year ended April 30, 2018, 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 April 30, 2018, 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

August 9, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2018**

Management's discussion and analysis of Harris County Municipal Utility District No. 261's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended April 30, 2018. 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 of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2018**

FUND FINANCIAL STATEMENTS (Continued)

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

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$2,847,916 as of April 30, 2018.

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:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 1,473,697	\$ 1,338,703	\$ 134,994
Capital Assets (Net of Accumulated Depreciation)	3,254,270	3,342,039	(87,769)
Total Assets	\$ 4,727,967	\$ 4,680,742	\$ 47,225
Long -Term Liabilities	\$ 1,687,762	\$ 1,755,062	\$ 67,300
Other Liabilities	192,289	207,859	15,570
Total Liabilities	\$ 1,880,051	\$ 1,962,921	\$ 82,870
Net Position:			
Net Investment in Capital Assets	\$ 2,217,051	\$ 2,274,746	\$ (57,695)
Restricted	117,321	58,089	59,232
Unrestricted	513,544	384,986	128,558
Total Net Position	\$ 2,847,916	\$ 2,717,821	\$ 130,095

The following table provides a summary of the District's operations for the years ended April 30, 2018, and April 30, 2017. The District's net position increased by \$130,095, accounting for a 4.8% increase in net position.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 690,324	\$ 672,496	\$ 17,828
Charges for Services	446,174	404,039	42,135
Other Revenues	17,238	11,107	6,131
Total Revenues	\$ 1,153,736	\$ 1,087,642	\$ 66,094
Expenses for Services	1,023,641	890,423	(133,218)
Change in Net Position	\$ 130,095	\$ 197,219	\$ (67,124)
Net Position, Beginning of Year	2,717,821	2,520,602	197,219
Net Position, End of Year	\$ 2,847,916	\$ 2,717,821	\$ 130,095

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of April 30, 2018, were \$1,268,712, an increase of \$148,481 from the prior year.

The General Fund fund balance increased by \$126,663, primarily due to property tax and service revenues exceeding operating and capital costs.

The Debt Service Fund fund balance increased by \$59,044, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$37,226, primarily due to the use of surplus funds for sinkhole repairs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$172,071 more than budgeted revenues primarily due to property tax and service revenues being higher than anticipated. Actual expenditures were \$63,108 more than budgeted expenditures primarily due to higher than anticipated professional fees, repairs and maintenance costs and capital costs.

CAPITAL ASSETS

Capital assets as of April 30, 2018, total \$3,254,270 (net of accumulated depreciation) and include land, buildings and equipment as well as the water and wastewater systems. Significant capital asset activity during the current fiscal year included the perimeter wall.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 290,988	\$ 290,988	\$
Capital Assets, Net of Accumulated Depreciation:			
Water System	1,062,570	1,096,624	(34,054)
Wastewater System	605,994	634,208	(28,214)
Perimeter Wall	832,621	832,557	64
Capacity Interest in Rolling Fork Wastewater Treatment Plant	462,097	487,662	(25,565)
Total Net Capital Assets	\$ 3,254,270	\$ 3,342,039	\$ (87,769)

Additional information on the District's capital assets can be found in Note 6 of this report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2018**

LONG-TERM DEBT ACTIVITY

As of April 30, 2018, the District had total bond debt payable of \$1,730,000.

The changes in the debt position of the District during the fiscal year ended April 30, 2018, are summarized as follows:

Bond Debt Payable, May 1, 2017	\$ 1,800,000
Less: Bond Principal Paid	<u>70,000</u>
Bond Debt Payable, April 30, 2018	<u><u>\$ 1,730,000</u></u>

The District’s Bonds currently carry an underlying rating of “Baa2.” The Series 2014 Bonds carry an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above rating is as of April 30, 2018, and reflects all rating changes of the bond insurer through the year then ended.

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 Harris County Municipal Utility District No. 261, c/o Smith, Murdaugh, Little & Bonham, 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
APRIL 30, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 43,612	\$ 36,496
Investments	485,415	176,712
Receivables:		
Property Taxes	10,820	7,205
Penalty and Interest on Delinquent Taxes		
Service Accounts	36,755	
Due from Other Funds	88,698	
Advance for Regional Wastewater Treatment		
Plant Operations	22,611	
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 687,911	\$ 220,413

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>
\$ 650,543	\$ 80,108	\$	\$ 80,108
	1,312,670		1,312,670
	18,025		18,025
		3,528	3,528
	36,755		36,755
	88,698	(88,698)	
	22,611		22,611
		290,988	290,988
		<u>2,963,282</u>	<u>2,963,282</u>
<u>\$ 650,543</u>	<u>\$ 1,558,867</u>	<u>\$ 3,169,100</u>	<u>\$ 4,727,967</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
APRIL 30, 2018

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 162,567	\$
Accrued Interest Payable		
Due to Other Funds		88,698
Due to Taxpayers		9,065
Security Deposits	11,800	
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
TOTAL LIABILITIES	\$ 174,367	\$ 97,763
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 10,820	\$ 7,205
FUND BALANCES		
Nonspendable:		
For Regional Wastewater Treatment Plant Operations	\$ 22,611	\$
Restricted for Authorized Construction		
Restricted for Debt Service		115,445
Unassigned	480,113	
TOTAL FUND BALANCES	\$ 502,724	\$ 115,445
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 687,911	\$ 220,413
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 162,567	\$	\$ 162,567
		8,857	8,857
	88,698	(88,698)	
	9,065		9,065
	11,800		11,800
		75,000	75,000
		<u>1,612,762</u>	<u>1,612,762</u>
<u>\$ -0-</u>	<u>\$ 272,130</u>	<u>\$ 1,607,921</u>	<u>\$ 1,880,051</u>
<u>\$ -0-</u>	<u>\$ 18,025</u>	<u>\$ (18,025)</u>	<u>\$ - 0 -</u>
\$	\$ 22,611	\$ (22,611)	\$
650,543	650,543	(650,543)	
	115,445	(115,445)	
	<u>480,113</u>	<u>(480,113)</u>	
<u>\$ 650,543</u>	<u>\$ 1,268,712</u>	<u>\$ (1,268,712)</u>	<u>\$ - 0 -</u>
<u>\$ 650,543</u>	<u>\$ 1,558,867</u>		
		\$ 2,217,051	\$ 2,217,051
		117,321	117,321
		<u>513,544</u>	<u>513,544</u>
		<u>\$ 2,847,916</u>	<u>\$ 2,847,916</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
APRIL 30, 2018

Total Fund Balances - Governmental Funds	\$	1,268,712
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities is not a financial resource and, therefore, is not reported as an asset in the governmental funds.		3,254,270
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.		21,553
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Certain liabilities, including bonds payable, 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	\$ (8,857)	
Bonds Payable	<u>(1,687,762)</u>	<u>(1,696,619)</u>

Total Net Position - Governmental Activities	\$	<u>2,847,916</u>
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The accompanying notes to the financial statements are an integral part of this report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED APRIL 30, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 495,295	\$ 194,702
Water Service	221,385	
Wastewater Service	217,973	
Penalty and Interest	3,146	2,148
Investment Revenues	3,422	1,570
Miscellaneous Revenues	1,950	2,611
TOTAL REVENUES	\$ 943,171	\$ 201,031
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 149,614	\$ 233
Contracted Services	123,801	13,393
Purchased Water Service	116,221	
Purchased Wastewater Service	133,243	
Utilities	4,683	
Repairs and Maintenance	194,277	
Depreciation		
Other	59,658	3,817
Capital Outlay	35,011	
Debt Service:		
Bond Principal		70,000
Bond Interest		54,544
TOTAL EXPENDITURES/EXPENSES	\$ 816,508	\$ 141,987
NET CHANGE IN FUND BALANCES	\$ 126,663	\$ 59,044
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - MAY 1, 2017	376,061	56,401
FUND BALANCES/NET POSITION - APRIL 30, 2018	\$ 502,724	\$ 115,445

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 Activities</u>
\$	\$ 689,997	\$ 327	\$ 690,324
	221,385		221,385
	217,973		217,973
	5,294	1,522	6,816
7,685	12,677		12,677
	4,561		4,561
<u>7,685</u>	<u>1,151,887</u>	<u>1,849</u>	<u>1,153,736</u>
\$	\$ 149,847	\$	\$ 149,847
	137,194		137,194
	116,221		116,221
	133,243		133,243
	4,683		4,683
44,911	239,188		239,188
		122,780	122,780
	63,475		63,475
	35,011	(35,011)	
	70,000	(70,000)	
	54,544	2,466	57,010
<u>44,911</u>	<u>1,003,406</u>	<u>20,235</u>	<u>1,023,641</u>
\$ (37,226)	\$ 148,481	\$ (148,481)	\$
		130,095	130,095
687,769	1,120,231	1,597,590	2,717,821
<u>650,543</u>	<u>1,268,712</u>	<u>1,579,204</u>	<u>2,847,916</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2018**

Net Change in Fund Balances - Governmental Funds	\$	148,481
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		327
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		1,522
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.		(122,780)
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.		35,011
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.		70,000
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.		<u>(2,466)</u>
Change in Net Position - Governmental Activities	\$	<u>130,095</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 261 (the “District”) was created effective November 20, 1984 by an Order of the Texas Water Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). 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, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District; to date the District has not chosen to exercise these powers. The Board of Directors held its first meeting on March 12, 1985, and the first bonds were sold on March 1, 1994.

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 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 is a participant in a joint venture to operate a jointly owned wastewater treatment plant. Rolling Fork Public Utility District has oversight on the plant. Summary financial information on the plant is described 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”).

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

The 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 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.

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating 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 revenues reported in the 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.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

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 April 30, 2018, the Debt Service Fund recorded a payable of \$88,698 to the General Fund for maintenance tax collections.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$20,000 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:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

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 has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll 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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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. Fund balances in governmental funds 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.

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 has no 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	Series 2014
Amount Outstanding - April 30, 2018	\$ 1,730,000
Interest Rates	2.00% - 3.50%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2034
Interest Payment Dates	September 1/March 1
Callable Dates	March 1, 2023*

* Or any date thereafter, callable at par plus unpaid accrued interest in whole or in part, at the option of the District. The Series 2014 Term Bonds maturing March 1, 2028, 2030, 2032, and 2034, are subject to mandatory redemption on March 1, 2026, 2029, 2031, and 2033, respectively.

The following is a summary of transactions regarding long-term liabilities for the year ended April 30, 2018:

	May 1, 2017	Additions	Retirements	April 30, 2018
Bonds Payable	\$ 1,800,000	\$	\$ 70,000	\$ 1,730,000
Unamortized Discounts	(44,938)		(2,700)	(42,238)
Bonds Payable, Net	\$ 1,755,062	\$ -0-	\$ 67,300	\$ 1,687,762
		Amount Due Within One Year		\$ 75,000
		Amount Due After One Year		1,612,762
		Bonds Payable, Net		\$ 1,687,762

As of April 30, 2018, the District had authorized but unissued bonds in the amount of \$1,900,000 for utility facilities.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

As of April 30, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 75,000	\$ 53,144	\$ 128,144
2020	80,000	51,644	131,644
2021	80,000	49,644	129,644
2022	85,000	47,244	132,244
2023	90,000	44,694	134,694
2024-2028	525,000	179,969	704,969
2029-2033	650,000	91,660	741,660
2034	145,000	5,075	150,075
	<u>\$ 1,730,000</u>	<u>\$ 523,074</u>	<u>\$ 2,253,074</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.

During the year ended April 30, 2018, the District levied an ad valorem debt service tax at the rate of \$0.14 per \$100 of assessed valuation, which resulted in a tax levy of \$193,512 on the adjusted taxable valuation of \$138,219,262 for the 2017 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

Levy Date - October 1 or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The Series 2014 order states that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District and each significant developer to 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

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 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 \$80,108 and the bank balance was \$114,062. 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 April 30, 2018, as listed below:

	Cash
GENERAL FUND	\$ 43,612
DEBT SERVICE FUND	36,496
TOTAL DEPOSITS	\$ 80,108

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District invests in TexPool and TexSTAR, external investment pools that are not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool. Federated Investors, Inc. manages the daily operations of TexPool under a contract with the Comptroller. First Southwest, a division of Hilltop Securities Inc., and JPMorgan Chase manage the daily operations of TexSTAR. TexPool and TexSTAR meet the criteria established in GASB Statement No. 79 and measure all of their portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool and TexSTAR at amortized cost for financial reporting purposes. As of April 30, 2018, 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	\$ 481,560	\$ 481,560
TexSTAR	3,855	3,855
<u>DEBT SERVICE FUND</u>		
TexPool	176,712	176,712
<u>CAPITAL PROJECTS FUND</u>		
TexPool	650,543	650,543
TOTAL INVESTMENTS	\$ 1,312,670	\$ 1,312,670

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At April 30, 2018, the District's investments in TexPool and TexSTAR were rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and TexSTAR to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended April 30, 2018:

	May 1, 2017	Increases	Decreases	April 30, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 290,988	\$ -0-	\$ -0-	\$ 290,988
Capital Assets Subject to Depreciation				
Water System	\$ 1,532,419	\$	\$	\$ 1,532,419
Wastewater System	1,206,412			1,206,412
Perimeter Wall	838,652	35,011		873,663
Capacity Interest in Rolling Fork Wastewater Treatment Plant	873,822			873,822
Total Capital Assets Subject to Depreciation	\$ 4,451,305	\$ 35,011	\$ -0-	\$ 4,486,316
Less Accumulated Depreciation				
Water System	\$ 435,795	\$ 34,054	\$	\$ 469,849
Wastewater System	572,204	28,214		600,418
Perimeter Wall	6,095	34,947		41,042
Capacity Interest in Rolling Fork Wastewater Treatment Plant	386,160	25,565		411,725
Total Accumulated Depreciation	\$ 1,400,254	\$ 122,780	\$ -0-	\$ 1,523,034
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 3,051,051	\$ (87,769)	\$ -0-	\$ 2,963,282
Total Capital Assets, Net of Accumulated Depreciation	\$ 3,342,039	\$ (87,769)	\$ -0-	\$ 3,254,270

The District has financed drainage facilities which have been conveyed to other entities for maintenance.

NOTE 7. MAINTENANCE TAX

On January 18, 1986, 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 year ended April 30, 2018, the District levied an ad valorem maintenance tax rate of \$0.36 per \$100 of assessed valuation, which resulted in a tax levy of \$497,603 on the adjusted taxable valuation of \$138,219,262 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 sanitary sewer system.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 8. WATER SUPPLY AND WASTEWATER TREATMENT CAPACITY

On February 5, 1997, the District executed an Agreement for Sale of Water Supply and Wastewater Treatment Capacity By and Between the District and Rolling Fork to be effective May 1, 1997. The agreement provided for Rolling Fork to sell interest and convey title to water supply capacity in the system adequate to serve 460 single-family residential equivalent connections. In a prior fiscal period, the District paid Rolling Fork \$275,000 from available bond proceeds for such purpose. The agreement further provided for the purchase by the District of 161,000 gallons per day (gpd) capacity in the wastewater treatment plant operated by Rolling Fork. The District paid Rolling Fork \$425,000 for the capacity in a prior fiscal period.

The term of the agreement was 40 years. Summary financial information on the jointly owned facilities can be obtained by contacting the law firm representing Rolling Fork Public Utility District, Strawn & Richardson, P.C., 6750 West Loop South, Suite 865, Bellaire, TX 77401-4103.

On June 7, 2001, the District amended its agreement with Rolling Fork for that portion applicable for the supply of water. The amendment relinquished the District's right, title and interest to water supply capacity in the Rolling Fork System. This action was taken simultaneously with the District entering into an agreement with Windfern for the purchase of water.

As of April 30, 2018, the District has funded a reserve for the Joint Sewage Treatment Plant of \$22,611. The District incurred sewage treatment cost of \$133,243 in accordance with this contract. A summary of financial activity of the Joint Sewage Treatment Plant as of and for the year ended April 30, 2018, is as follows:

	<u>Joint Venture</u>
Total Assets	\$ 84,511
Total Liabilities	<u>32,526</u>
Fund Balance	<u>\$ 51,985</u>
Total Revenues	\$ 265,767
Total Expenditures	<u>265,767</u>
Net Increase (Decrease) in Fund Balance	\$ -0-
Fund Balance - Beginning of Year	<u>51,985</u>
Fund Balance - End of Year	<u>\$ 51,985</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2018

NOTE 8. WATER SUPPLY AND WASTEWATER TREATMENT CAPACITY
(Continued)

On June 15, 2010, the District entered a Water Supply and Construction Contract with Windfern. Windfern has completed the construction of the joint transmission line and related facilities which connect to the City's existing main water line located at Fairbanks North Houston Road and deliver water to Windfern's existing water plant no. 2 ("Project"). The District and Windfern were responsible for their proportionate share of the costs for the design and construction of the Project at 24% and 76%, respectively. Windfern has title to the project and is responsible for performing all routine maintenance and repairs and capital repairs to the Project and the District is responsible for its proportionate share of the cost. The contract provides for Windfern to supply groundwater and surface water to the District. The District is charged \$0.90 per 1,000 gallons up to 6 million gallons and \$1.03 per 1,000 gallons that exceeds 6 million gallons delivered to the District. The District incurred purchased water costs of \$116,221 during the current fiscal year. The term of the contract is 40 years.

NOTE 9. 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 10. USE OF SURPLUS FUNDS

In accordance with Rule 30 T.A.C. 293.83(c) (3) of the Commission, the District approved the use of surplus Capital Projects Fund monies to cover repair costs for sinkholes at the detention ponds in the amount of \$44,911. During the current fiscal year, the District completed the project.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261

REQUIRED SUPPLEMENTARY INFORMATION

APRIL 30, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED APRIL 30, 2018

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 361,000	\$ 495,295	\$ 134,295
Water Service	200,000	221,385	21,385
Wastewater Service	200,000	217,973	17,973
Penalty and Interest	2,500	3,146	646
Investment Revenues	3,000	3,422	422
Miscellaneous Revenues	<u>4,600</u>	<u>1,950</u>	<u>(2,650)</u>
TOTAL REVENUES	<u>\$ 771,100</u>	<u>\$ 943,171</u>	<u>\$ 172,071</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 129,500	\$ 149,614	\$ (20,114)
Contracted Services	126,000	123,801	2,199
Purchased Water Service	115,000	116,221	(1,221)
Purchased Wastewater Service	134,000	133,243	757
Utilities	4,900	4,683	217
Repairs and Maintenance	182,000	194,277	(12,277)
Other	62,000	59,658	2,342
Capital Outlay	<u> </u>	<u>35,011</u>	<u>(35,011)</u>
TOTAL EXPENDITURES	<u>\$ 753,400</u>	<u>\$ 816,508</u>	<u>\$ (63,108)</u>
NET CHANGE IN FUND BALANCE	\$ 17,700	\$ 126,663	\$ 108,963
FUND BALANCE - MAY 1, 2017	<u>376,061</u>	<u>376,061</u>	<u> </u>
FUND BALANCE - APRIL 30, 2018	<u>\$ 393,761</u>	<u>\$ 502,724</u>	<u>\$ 108,963</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
APRIL 30, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
SERVICES AND RATES
FOR THE YEAR ENDED APRIL 30, 2018**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective December 20, 2017.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 20.00	4,000	N	\$ 2.50 \$ 4.00 \$ 4.50	4,001 to 12,000 12,001 to 20,000 20,001 and up
WASTEWATER:	\$ 42.73		Y		

District employs winter averaging for wastewater usage?

_____	_____
Yes	<u> X </u> No

Total monthly charges per 10,000 gallons usage: Water: \$35.00 Wastewater: \$42.73 Total: \$77.73

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
SERVICES AND RATES
FOR THE YEAR ENDED APRIL 30, 2018

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	472	469	x 1.0	469
1"	6	6	x 2.5	15
1½"	2	2	x 5.0	10
2"	1	1	x 8.0	8
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>481</u>	<u>478</u>		<u>502</u>
Total Wastewater Connections	<u>451</u>	<u>448</u>	x 1.0	<u>448</u>

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

Water Accountability Ratio: 85.9%
(Gallons billed and sold/Gallons pumped and purchased)

Gallons billed to customers: 61,698,000

Gallons purchased: 71,845,000

From Windfern Forest Utility District

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
SERVICES AND RATES
FOR THE YEAR ENDED APRIL 30, 2018

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 or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED APRIL 30, 2018

PROFESSIONAL FEES:	
Auditing	\$ 14,500
Engineering	31,888
Legal	102,726
Financial Advisor	<u>500</u>
TOTAL PROFESSIONAL FEES	<u>\$ 149,614</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 116,221
Purchased Wastewater Service	<u>133,243</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 249,464</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 12,357
Operations and Billing	<u>14,088</u>
TOTAL CONTRACTED SERVICES	<u>\$ 26,445</u>
UTILITIES:	
Electricity	\$ 1,650
Telephone	<u>3,033</u>
TOTAL UTILITIES	<u>\$ 4,683</u>
REPAIRS AND MAINTENANCE	<u>\$ 194,277</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 10,500
Dues	2,105
Insurance	3,936
Legal Notices	492
Office Supplies and Postage	15,395
Payroll Taxes	803
Travel and Meetings	3,220
Other	<u>13,202</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 49,653</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED APRIL 30, 2018

CAPITAL OUTLAY	\$ <u>35,011</u>
SOLID WASTE DISPOSAL	\$ <u>97,356</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 5,147
Permit Fees	1,186
Inspection Fees	830
Regulatory Assessment	<u>2,842</u>
TOTAL OTHER EXPENDITURES	\$ <u>10,005</u>
TOTAL EXPENDITURES	\$ <u><u>816,508</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
INVESTMENTS
APRIL 30, 2018

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 481,560	\$
TexSTAR	XXXX1000	Varies	Daily	3,855	
TOTAL GENERAL FUND				<u>\$ 485,415</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 176,712	\$ - 0 -
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0005	Varies	Daily	\$ 650,543	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 1,312,670</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED APRIL 30, 2018

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - MAY 1, 2017	\$	8,925	\$	8,773
Adjustments to Beginning Balance		<u>(413)</u>	\$	<u>8,395</u>
		\$ 8,512		\$ 8,395
Original 2017 Tax Levy	\$	493,962	\$	192,096
Adjustment to 2017 Tax Levy		<u>3,641</u>	<u>497,603</u>	<u>1,416</u>
			<u>193,512</u>	
TOTAL TO BE ACCOUNTED FOR		\$ 506,115		\$ 201,907
TAX COLLECTIONS:				
Prior Years	\$	4,564	\$	3,862
Current Year		<u>490,731</u>	<u>495,295</u>	<u>190,840</u>
			<u>194,702</u>	
TAXES RECEIVABLE - APRIL 30, 2018		<u>\$ 10,820</u>		<u>\$ 7,205</u>
TAXES RECEIVABLE BY YEAR:				
2017	\$	6,872	\$	2,672
2016		770		656
2015		566		772
2014		557		743
2013		628		670
2012		628		670
2011		523		669
2010		<u>276</u>		<u>353</u>
TOTAL	\$	<u>10,820</u>	\$	<u>7,205</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED APRIL 30, 2018

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 26,917,650	\$ 26,418,736	\$ 26,382,555	\$ 20,460,927
Improvements	115,004,242	111,364,674	100,802,591	94,395,504
Personal Property	1,144,398	1,460,536	1,227,869	1,299,361
Exemptions	(4,847,028)	(4,595,090)	(4,364,883)	(4,058,450)
TOTAL PROPERTY VALUATIONS	\$ 138,219,262	\$ 134,648,856	\$ 124,048,132	\$ 112,097,342
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.14	\$ 0.23	\$ 0.30	\$ 0.32
Maintenance	0.36	0.27	0.22	0.24
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.50	\$ 0.50	\$ 0.52	\$ 0.56
ADJUSTED TAX LEVY*	\$ 691,115	\$ 673,248	\$ 645,100	\$ 627,690
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	98.62 %	99.79 %	99.79 %	99.79 %

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on January 18, 1986.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2018

SERIES - 2014

Due During Fiscal Years Ending April 30	Principal Due March 1	Interest Due September 1/ March 1	Total
2019	\$ 75,000	\$ 53,144	\$ 128,144
2020	80,000	51,644	131,644
2021	80,000	49,644	129,644
2022	85,000	47,244	132,244
2023	90,000	44,694	134,694
2024	95,000	41,994	136,994
2025	100,000	39,144	139,144
2026	105,000	36,144	141,144
2027	110,000	32,994	142,994
2028	115,000	29,693	144,693
2029	120,000	26,244	146,244
2030	125,000	22,493	147,493
2031	130,000	18,586	148,586
2032	135,000	14,362	149,362
2033	140,000	9,975	149,975
2034	145,000	5,075	150,075
	<u>\$ 1,730,000</u>	<u>\$ 523,074</u>	<u>\$ 2,253,074</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED APRIL 30, 2018

Description	Original Bonds Issued	Bonds Outstanding May 1, 2017
Harris County Municipal Utility District No. 261 Unlimited Tax Bonds - Series 2014	<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>
Bond Authority:		Tax Bonds*
Amount Authorized by Voters		\$ 8,850,000
Amount Issued		<u>6,950,000</u>
Remaining to be Issued		<u>\$ 1,900,000</u>
Debt Service Fund cash and investment balances as of April 30, 2018:		<u>\$ 213,208</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 140,817</u>

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

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding April 30, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
<u>\$ -0-</u>	<u>\$ 70,000</u>	<u>\$ 54,544</u>	<u>\$ 1,730,000</u>	Amegy Bank Houston, TX

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 495,295	\$ 359,155	\$ 274,068
Water Service	221,385	196,389	190,462
Wastewater Service	217,973	203,514	197,776
Groundwater Credit Revenue			
Penalty and Interest	3,146	2,044	2,516
Investment Revenues	3,422	4,321	1,982
Miscellaneous Revenues	1,950	2,960	13,958
TOTAL REVENUES	\$ 943,171	\$ 768,383	\$ 680,762
EXPENDITURES			
Professional Fees	\$ 149,614	\$ 128,687	\$ 134,671
Contracted Services	123,801	123,810	119,937
Purchased Services	249,464	237,039	216,762
Utilities	4,683	4,730	4,379
Repairs and Maintenance	194,277	155,739	72,069
Other	59,658	51,478	48,173
Capital Outlay	35,011	798,008	40,644
TOTAL EXPENDITURES	\$ 816,508	\$ 1,499,491	\$ 636,635
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 126,663	\$ (731,108)	\$ 44,127
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ -0-	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCE	\$ 126,663	\$ (731,108)	\$ 44,127
BEGINNING FUND BALANCE	376,061	1,107,169	1,063,042
ENDING FUND BALANCE	\$ 502,724	\$ 376,061	\$ 1,107,169

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 268,433	\$ 304,106	52.5 %	46.6 %	40.1 %	40.6 %	33.3 %
185,538	276,722	23.5	25.6	28.0	28.1	30.4
197,423	197,456	23.1	26.5	29.1	29.9	21.7
	122,736					13.5
2,566	2,956	0.3	0.3	0.4	0.4	0.3
490	327	0.4	0.6	0.3	0.1	
6,151	7,290	0.2	0.4	2.1	0.9	0.8
<u>\$ 660,601</u>	<u>\$ 911,593</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 118,638	\$ 97,546	15.9 %	16.7 %	19.8 %	18.0 %	10.7 %
112,610	108,268	13.1	16.1	17.6	17.0	11.9
226,625	309,657	26.4	30.8	31.8	34.3	34.0
4,008	3,169	0.5	0.6	0.6	0.6	0.3
97,844	100,115	20.6	20.3	10.6	14.8	11.0
62,393	51,659	6.3	6.7	7.1	9.4	5.7
	134,396	3.7	103.9	6.0		14.7
<u>\$ 622,118</u>	<u>\$ 804,810</u>	<u>86.5 %</u>	<u>195.1 %</u>	<u>93.5 %</u>	<u>94.1 %</u>	<u>88.3 %</u>
<u>\$ 38,483</u>	<u>\$ 106,783</u>	<u>13.5 %</u>	<u>(95.1) %</u>	<u>6.5 %</u>	<u>5.9 %</u>	<u>11.7 %</u>
<u>\$ 620,839</u>	<u>\$ (93,928)</u>					
\$ 659,322	\$ 12,855					
<u>403,720</u>	<u>390,865</u>					
<u>\$ 1,063,042</u>	<u>\$ 403,720</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 194,702	\$ 306,638	\$ 373,637
Penalty and Interest	2,148	1,989	2,277
Investment Revenues	1,570	690	436
Miscellaneous Revenues	2,611		881
TOTAL REVENUES	\$ 201,031	\$ 309,317	\$ 377,231
EXPENDITURES			
Tax Collection Expenditures	\$ 17,043	\$ 18,895	\$ 17,008
Debt Service Principal	70,000	280,000	405,000
Debt Service Interest and Fees	54,944	68,854	86,734
TOTAL EXPENDITURES	\$ 141,987	\$ 367,749	\$ 508,742
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 59,044	\$ (58,432)	\$ (131,511)
OTHER FINANCING SOURCES (USES)			
Transfers In	\$	\$	\$
Long-Term Debt Issued			
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCE	\$ 59,044	\$ (58,432)	\$ (131,511)
BEGINNING FUND BALANCE	56,401	114,833	246,344
ENDING FUND BALANCE	\$ 115,445	\$ 56,401	\$ 114,833
TOTAL ACTIVE RETAIL WATER CONNECTIONS	478	482	481
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	448	478	478

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 357,015	\$ 324,349	96.8 %	99.2 %	99.1 %	99.3 %	99.1 %
2,540	2,930	1.1	0.6	0.6	0.7	0.9
68	45	0.8	0.2	0.1		
		1.3		0.2		
<u>\$ 359,623</u>	<u>\$ 327,324</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 21,015	\$ 17,343	8.5 %	6.1 %	4.5 %	5.8 %	5.3 %
395,000	355,000	34.8	90.5	107.4	109.8	108.5
61,368	65,608	27.3	22.3	23.0	17.1	20.0
<u>\$ 477,383</u>	<u>\$ 437,951</u>	<u>70.6 %</u>	<u>118.9 %</u>	<u>134.9 %</u>	<u>132.7 %</u>	<u>133.8 %</u>
<u>\$ (117,760)</u>	<u>\$ (110,627)</u>	<u>29.4 %</u>	<u>(18.9) %</u>	<u>(34.9) %</u>	<u>(32.7) %</u>	<u>(33.8) %</u>
\$ 238,000	\$ 93,928					
54,544						
<u>\$ 292,544</u>	<u>\$ 93,928</u>					
\$ 174,784	\$ (16,699)					
71,560	88,259					
<u>\$ 246,344</u>	<u>\$ 71,560</u>					
482	480					
478	475					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
APRIL 30, 2018

District Mailing Address - Harris County Municipal Utility District No. 261
c/o Smith, Murdaugh, Little & Bonham, L.L.P.
2727 Allen Parkway, Suite 1100
Houston, TX 77019

District Telephone Number - (713) 652-6500

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>April 30, 2018</u>	Expense Reimbursements for the year ended <u>April 30, 2018</u>	<u>Title</u>
S. Brady Whitaker	05/14 – 05/18 (Elected)	\$ 1,800	\$ -0-	President
Jason VanLoo	05/16 – 05/20 (Elected)	\$ 1,950	\$ -0-	Vice President
John Oyen	05/16 – 05/20 (Elected)	\$ 2,700	\$ 781	Secretary/ Investment Officer
Larry Goldberg	05/14 – 05/18 (Elected)	\$ 2,100	\$ 1,510	Assistant Secretary
Emory Dooley, Jr.	05/16 – 05/20 (Elected)	\$ 1,950	\$ 929	Director

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District’s developers or with any of the District’s consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
September 27, 2016.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on August 21, 2003. Fees of Office are the amounts actually paid to a Director during the District’s current fiscal year.

See accompanying independent auditor’s report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 261
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
APRIL 30, 2018

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended April 30, 2018</u>	<u>Title</u>
Smith, Murdaugh, Little & Bonham, L.L.P.	06/06/89	\$ 102,726	General Counsel/ Delinquent Tax Attorney
	05/26/92	\$ 233	
McCall Gibson Swedlund Barfoot PLLC	02/04/93	\$ 14,500	Auditor
ETI Bookkeeping Services	01/01/02	\$ 12,357	Bookkeeper
A & S Engineers, Inc.	10/04/99	\$ 51,584	Engineer
RBC Capital Markets	07/17/03	\$ 500	Financial Advisor
Texas Operations & Professional Services	07/12/12	\$ 160,527	Operator
Kenneth Byrd	10/12/89	\$ 10,441	Tax Assessor/ Collector

See accompanying independent auditor's report.

