

HARRIS COUNTY

MUNICIPAL UTILITY DISTRICT NO. 61

HARRIS COUNTY, TEXAS

ANNUAL AUDIT REPORT

OCTOBER 31, 2008

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	8
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	9
NOTES TO THE FINANCIAL STATEMENTS	10-22
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND	23
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND	24
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	25
SCHEDULE OF SERVICES AND RATES	26-27
EXPENDITURES FOR THE YEAR ENDED OCTOBER 31, 2008	28
ANALYSIS OF CHANGES IN DEPOSITS, ALL GOVERNMENTAL FUND TYPES	29
SCHEDULE OF CERTIFICATES OF DEPOSIT	30
TAXES LEVIED AND RECEIVABLE	31-32
LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS	33-34
ANALYSIS OF CHANGES IN GENERAL LONG-TERM BONDED DEBT	35
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND	36
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND	37
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	38-39

Mark L. Roth

CERTIFIED PUBLIC ACCOUNTANT
CERTIFIED FRAUD EXAMINER

4915 S. Main • Suite 114 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

March 12, 2009

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 61
Harris County, Texas


I have audited the accompanying financial statements of Harris County Municipal Utility District No. 61 as of October 31, 2008, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the management of Harris County Municipal Utility District No. 61. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harris County Municipal Utility District No. 61 as of October 31, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis on Pages 2 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 23 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund, on Page 24 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harris County Municipal Utility District No. 61's basic financial statements. The supplementary information on Pages 25 to 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Except for the portion marked "unaudited," this supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm except for the years ended October 31, 2007, which were audited by other independent auditors whose report dated April 11, 2008, expressed an unqualified opinion on those statements.



Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Municipal Utility District No. 61 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended October 31, 2008.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net assets and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net assets is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net assets* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net assets*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net assets presented in the governmental activities column on the statement of net assets. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net assets as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that the expenditures in the funds are billed to the participants in accordance with the contract. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, costs of issuance and certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Assets

	<u>2008</u>	<u>2007*</u>	<u>Change</u>
Current and other assets	\$ 2,179,711	\$ 2,326,976	\$ (147,265)
Capital assets	1,895,027	1,381,240	513,787
Total assets	<u>4,074,738</u>	<u>3,708,216</u>	<u>366,522</u>
Long-term liabilities	2,891,639	3,010,000	(118,361)
Other liabilities	866,943	540,411	326,532
Total liabilities	<u>3,758,582</u>	<u>3,550,411</u>	<u>208,171</u>
Net assets:			
Invested in capital assets, net of related debt	(1,196,158)	(1,111,519)	(84,639)
Restricted	1,070,060	878,068	191,992
Unrestricted	442,254	403,046	39,208
Total net assets	<u>\$ 316,156</u>	<u>\$ 169,595</u>	<u>\$ 146,561</u>

Summary of Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 490,933	\$ 587,113	\$ (96,180)
Charges for services	450,826	393,502	57,324
Sales and Use Taxes	39,578	57,718	(18,140)
Other revenues	41,506	86,140	(44,634)
Total revenues	<u>1,022,843</u>	<u>1,124,473</u>	<u>(101,630)</u>
Expenses:			
Service operations	718,117	603,193	114,924
Debt service	158,165	145,652	12,513
Total expenses	<u>876,282</u>	<u>748,845</u>	<u>127,437</u>
Change in net assets	146,561	375,628	(229,067)
Net assets, beginning of year	<u>169,595</u>	<u>(206,033)</u>	<u>375,628</u>
Net assets, end of year	<u>\$ 316,156</u>	<u>\$ 169,595</u>	<u>\$ 146,561</u>

*Restated. See Note 12 of the Notes to the Financial Statements.

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended October 31, 2008, were \$1,575,586, a decrease of \$248,804 from the prior year.

The General Fund balance increased by \$12,016, in accordance with the District's financial plan.

The Special Revenue Fund balance did not change.

The Debt Service Fund balance decreased by \$2,945, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$257,875. This decrease was primarily due to contributions to the regional wastewater treatment authority for upgrades to the plant.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. There were several significant differences between the budgetary amounts and the actual amounts. Several revenue accounts were not budgeted. Actual purchased services and professional fees were higher than budgeted. The budgetary fund balance as of October 31, 2008, was expected to be \$852,388 and the actual end of year fund balance was \$818,712.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

Capital Assets (Net of Accumulated Depreciation)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Land	\$ 19,659	\$ 19,659	\$ 0
Construction in progress	592,913	2,626	590,287
Water facilities	943,551	1,012,868	(69,317)
Sewer facilities	338,904	346,087	(7,183)
Totals	<u>\$ 1,895,027</u>	<u>\$ 1,381,240</u>	<u>\$ 513,787</u>

Changes to capital assets during the fiscal year ended October 31, 2008, are summarized as follows:

Additions:

Contribution to regional wastewater treatment plant	\$ 276,957
Detention pond construction by developers	311,639
Adjustment of prior year balances to audited amounts	8,529
Engineering for amenity pond	4,317
Total additions to capital assets	<u>601,442</u>

Decreases:

Depreciation	<u>(87,655)</u>
Net change to capital assets	<u>\$ 513,787</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended October 31, 2008, are summarized as follows:

Bonded debt payable, beginning of year	\$ 3,010,000
Bonds paid	(215,000)
Bonded debt payable, end of year	<u>\$ 2,795,000</u>

At October 31, 2008, the District had \$39,315,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of Baa3 by Moody's Investors Service (Moody's). The Series 2000 bonds are insured by Financial Guaranty Insurance Company (FGIC), and the 2003 bonds are insured by American Municipal Bond Assurance Corporation (Ambac). Because of the insurance, these bonds are rated Baa1 and Caa1 by Moody's, respectively. There were changes in the ratings of the insurers during and after the fiscal year ended October 31, 2008, for the Series 2000 and 2003 bonds. The ratings changed due to the lowered ratings of the companies insuring these bonds.

As further described in Note 5 of the notes to the financial statements, developers within the District are currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at October 31, 2008, was \$311,639.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

As of October 31, 2008, the District's certified tax base had decreased approximately \$3,800,000 for the 2008 tax year. Approximately \$14,700,000 additional valuation remained uncertified at that date.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston without the District's consent. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of April 11, 2003. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use Tax, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City has imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas.

Water Supply Issues

The District is within the Harris-Galveston Subsidence District (the "Subsidence District") Regulatory Area No. 3. The Subsidence District regulates the withdrawal of groundwater within its jurisdiction. The District's authority to pump ground water from its well is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas of suburban Houston to convert most of their water supply to surface water under various schedules. Beginning in January 2003, the District is required to have a groundwater reduction plan ("GRP"), approved by the Subsidence District and by January 2005, the District must provide evidence to the Subsidence District that construction of the infrastructure defined within the District's certified groundwater reduction plan has started. The Subsidence District has designated January 2010, as the date required for the District to restrict the withdrawal of ground water and convert 30% of its total water use to surface water; January 2020, as the date required for the District to restrict the withdrawal of ground water and convert 70% of its total water use to surface water and January 2030, as the date required for the District to restrict the withdrawal of ground water and convert 80% of its total water use to surface water. If the District does not meet the requirements of the Subsidence District, the District may be required to pay the disincentive fees adopted by the Subsidence District.

In May, 2001, the Texas Legislature created the West Harris County Regional Water Authority (the "Authority") and included the District within the boundaries of the Authority. The Authority was created to provide a regional entity to build the necessary facilities to meet the subsidence District's requirements for conversion from ground water to surface water of all permit holders within its boundaries, including the District. Accordingly, the District is required to pay groundwater reduction plan fees to the Authority, and in turn is entitled to rely upon the Authority's GRP to achieve compliance with the subsidence District's requirements. In accordance with the GRP, the Authority has negotiated a water supply contract with the City of Houston and has issued its first revenue bonds to finance the initial phase of the surface water supply system. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. The Authority's surface water pumpage fee was equal to \$0.85 per 1,000 gallons pumped for the period January 1, 2008 to December 31, 2008, \$0.95 effective January 1, 2009, and is expected to increase in the future.

The Authority, as part of the plan of financing the Authority System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the Authority System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the Authority. The District has contributed \$355,443 to the Authority for its share of the construction costs in connection with the Authority's first and only bond issue.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates the need to pass such fees through its customers in higher water and sewer rates. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds. In the event the Authority fails to commence construction of surface water infrastructure by the deadline established by the Subsidence District, the District and others within the Authority's GRP group will be required to pay the disincentive fee on withdrawn groundwater. This distinctive fee is substantial, and the District expects it would need to pass such fee through to its customers in higher water and sewer rates. This distinctive fee would be in addition to the Authority's fee.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

OCTOBER 31, 2008

	General	Special Revenue Fund	Debt Service	Capital Projects	Total	Adjustments (Note 3)	Statement of Net Assets
ASSETS							
Cash, including interest-bearing accounts, Note 7	\$ 508,092	\$ 29,916	\$ 59,961	\$ 456,874	\$ 1,054,843	\$	\$ 1,054,843
Certificates of deposit, at cost, Note 5			195,000		195,000		195,000
Receivables:							
Property taxes	128,534		377,149		505,683		505,683
Accrued penalty and interest on property taxes					0	1,863	1,863
Service accounts	24,226				24,226		24,226
Accrued interest			727		727		727
Other	17,255				17,255		17,255
Due from participant in joint plant		5,575			5,575		5,575
Due from other districts, Note 9					0	15,454	15,454
Due from other fund		12,406	18,276		30,682	(30,682)	0
Prepaid surface water capital contribution, Note 10	349,085				349,085		349,085
Operating reserve at joint plants, Note 9	30,000				30,000	(20,000)	10,000
Capital assets, net of accumulated depreciation, Note 4:							0
Capital assets not being depreciated					0	612,572	612,572
Depreciable capital assets					0	1,282,455	1,282,455
Total Assets	\$ 1,057,192	\$ 47,897	\$ 651,113	\$ 456,874	\$ 2,213,076	1,861,662	4,074,738
LIABILITIES							
Accounts payable	\$ 59,932	\$ 17,897	\$ 3,964	\$	\$ 81,793		81,793
Accrued interest payable					0	43,554	43,554
Customer deposits	19,332				19,332		19,332
Due to other funds	30,682				30,682	(30,682)	0
Other district equity in joint plant					0	10,000	10,000
Deferred property tax revenues	128,534		377,149		505,683	(8,419)	497,264
Long-term liabilities, Note 5:							
Due within one year					0	215,000	215,000
Due in more than one year					0	2,891,639	2,891,639
Total liabilities	238,480	17,897	381,113	0	637,490	3,121,092	3,758,582
FUND BALANCES / NET ASSETS							
Fund balances:							
Reserved for:							
Prepaid surface water capital contribution, Note 10	349,085				349,085	(349,085)	0
Operating reserve at joint plants, Note 9	30,000	30,000			60,000	(60,000)	0
Unreserved	439,627		270,000	456,874	1,166,501	(1,166,501)	0
Total fund balances	818,712	30,000	270,000	456,874	1,575,586	(1,575,586)	0
Total liabilities and fund balances	\$ 1,057,192	\$ 47,897	\$ 651,113	\$ 456,874	\$ 2,213,076		
Net assets:							
Invested in capital assets, net of related debt, Note 4						(1,196,158)	(1,196,158)
Restricted for debt service						234,617	234,617
Restricted for capital projects						486,358	486,358
Restricted for prepaid surface water capital contribution						349,085	349,085
Unrestricted						442,254	442,254
Total net assets						\$ 316,156	\$ 316,156

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

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

FOR THE YEAR ENDED OCTOBER 31, 2008

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES							
Property taxes	\$ 123,521	\$	\$ 363,359	\$	\$ 486,880	\$ (626)	\$ 486,254
Water service	145,863				145,863		145,863
Sewer service	94,624				94,624		94,624
Surface water fees, Note 10	75,957				75,957		75,957
From participants in plant, Note 9		289,278			289,278	(208,275)	81,003
Penalty and interest	6,039		5,613		11,652	(934)	10,718
Lease revenue, Note 9	21,106				21,106		21,106
Sales and Use Taxes, Note 11	39,578				39,578		39,578
Interest on prepaid surface water capital contribution, Note 10	16,386				16,386		16,386
Interest on deposits	11,863	2	10,559	19,082	41,506		41,506
Other revenues	9,848				9,848		9,848
Total revenues	544,785	289,280	379,531	19,082	1,232,678	(209,835)	1,022,843
EXPENDITURES / EXPENSES							
Service operations:							
Purchased services, Note 9	288,603				288,603	(208,275)	80,328
Professional fees	123,309	27,849	1,908		153,066		153,066
Contracted services	23,061	11,007	16,763		50,831		50,831
Utilities	3,810	58,114			61,924		61,924
Surface water pumpage fees, Note 10		119,520			119,520		119,520
Repairs and maintenance	46,025	55,508			101,533		101,533
Other operating expenditures	1,902	9,819			11,721		11,721
Administrative expenditures	41,742	7,463	10,863		60,068		60,068
Depreciation					0	87,655	87,655
Capital outlay / non-capital outlay	4,317			276,957	281,274	(289,803)	(8,529)
Debt service:							
Principal retirement			215,000		215,000	(215,000)	0
Interest and fees			137,942		137,942	20,223	158,165
Total expenditures / expenses	532,769	289,280	382,476	276,957	1,481,482	(605,200)	876,282
Excess (deficiency) of revenues over expenditures	12,016	0	(2,945)	(257,875)	(248,804)	395,365	146,561
Net change in fund balances / net assets	12,016	0	(2,945)	(257,875)	(248,804)	395,365	146,561
Beginning of year, restated, Note 12	806,696	30,000	272,945	714,749	1,824,390	(1,654,795)	169,595
End of year	\$ 818,712	\$ 30,000	\$ 270,000	\$ 456,874	\$ 1,575,586	\$ (1,259,430)	\$ 316,156

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61NOTES TO THE FINANCIAL STATEMENTSOCTOBER 31, 2008**NOTE 1: REPORTING ENTITY**

Harris County Municipal Utility District No. 61 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective May 2, 1973, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

The District is a participant in the Williamsburg Regional Sewage Treatment Plant operated by the Williamsburg Regional Sewage Authority (the "Authority"). Oversight of the Authority is exercised by the Board of Delegates of the Authority which is comprised of representatives from the participants. Based on the criteria described above, the Authority's financial activity has not been included in the District's financial statements. Transactions with and summary financial information of this joint venture are described in Note 9.

The District and Harris County Municipal Utility District No. 62 are participants in joint water plant facilities (the "Facilities"). Oversight of the Facilities is exercised by the Board of Directors of the District and financial activity of the Facilities has been included as a component unit in the financial statements of the District. The Facilities' General Fund has been reported as the Special Revenue Fund of the District. Transactions with this joint venture are described in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities. The government-wide statement of activities reports the components of the changes in net assets during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as reserved or unreserved. Fund balances are reserved to indicate that portion of the fund balance which is not available for expenditure or is legally segregated for a specific future use. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the joint water plant facilities .

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund 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 if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred revenues. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$10,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Prepaid Surface Water Capital Contributions

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under the terms of the Capital Contribution Contract (the "Contract") are recorded as either a repayment of the principal amount of the prepaid surface water capital contribution or interest earned on the prepayment at the interest rate of the applicable Contract. The principal is amortized based upon the life of the credits and the interest rate of the applicable Contract.

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net assets:

Total fund balances, end of year		\$ 1,575,586
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets, net		1,895,027
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (2,795,000)	
Due to developer	<u>(311,639)</u>	(3,106,639)
The assets in the special revenue fund are owned by the District and other participants in the joint venture:		
The District's equity	(20,000)	
Other participants' equity	<u>(10,000)</u>	(30,000)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Due from other districts	15,454	
Accrued penalty and interest on property taxes receivable	1,863	
Uncollected property taxes	<u>8,419</u>	25,736
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(43,554)</u>
Net assets, end of year		<u><u>\$ 316,156</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net assets:

Total net change in fund balances		\$ (248,804)
The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	\$ 289,803	
Depreciation	<u>(87,655)</u>	202,148
The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The effect of these differences in the treatment of long-term debt:		
Principal reduction		215,000
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:		
Accrued penalty and interest on property taxes receivable	(934)	
Uncollected property taxes	<u>(626)</u>	(1,560)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:		
Accrued interest		<u>(20,223)</u>
Change in net assets		<u>\$ 146,561</u>

NOTE 4: CAPITAL ASSETS

At October 31, 2008, "Invested in capital assets, net of related debt" was \$(1,196,158). This amount was negative primarily because not all expenditures from bond proceeds were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In accordance with GASB Statement No. 34, expenditures for bond issuance costs prior to the implementation of GASB Statement No. 34 on January 1, 2004, were not recorded as deferred charges which would offset the related liability of bonds payable. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended October 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 19,659	\$	\$	\$ 19,659
Construction in progress	<u>2,626</u>	<u>590,287</u>		<u>592,913</u>
Total capital assets not being depreciated	<u>22,285</u>	<u>590,287</u>	<u>0</u>	<u>612,572</u>
Depreciable capital assets:				
Water system	1,899,694	11,155		1,910,849
Sewer system	<u>1,018,993</u>			<u>1,018,993</u>
Total depreciable capital assets	<u>2,918,687</u>	<u>11,155</u>	<u>0</u>	<u>2,929,842</u>
Less accumulated depreciation for:				
Water system	(886,826)	(69,317)		(956,143)
Sewer system	<u>(672,906)</u>	<u>(18,338)</u>		<u>(691,244)</u>
Total accumulated depreciation	<u>(1,559,732)</u>	<u>(87,655)</u>	<u>0</u>	<u>(1,647,387)</u>
Total depreciable capital assets, net	<u>1,358,955</u>	<u>(76,500)</u>	<u>0</u>	<u>1,282,455</u>
Total capital assets, net	<u>\$ 1,381,240</u>	<u>\$ 513,787</u>	<u>\$ 0</u>	<u>\$ 1,895,027</u>
Changes to capital assets:				
Capital outlay		\$ 289,803	\$	
Increase in liability to developer		311,639		
Less depreciation expense for the fiscal year		<u>(87,655)</u>		
Net increases / decreases to capital assets		<u>\$ 513,787</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended October 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 3,010,000	\$	\$ 215,000	\$ 2,795,000	\$ 215,000
Due to developer (see below)		<u>311,639</u>		<u>311,639</u>	<u>-----</u>
Total long-term liabilities	<u>\$ 3,010,000</u>	<u>\$ 311,639</u>	<u>\$ 215,000</u>	<u>\$ 3,106,639</u>	<u>\$ 215,000</u>

Developer Construction Commitments and Liabilities

Developers within the District are currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at October 31, 2008, was \$311,639. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of October 31, 2008, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 215,000	\$ 127,162	\$ 342,162
2010	210,000	117,763	327,763
2011	210,000	108,417	318,417
2012	210,000	98,933	308,933
2013	210,000	89,342	299,342
2014 - 2018	1,050,000	298,453	1,348,453
2019 - 2023	620,000	76,461	696,461
2024	70,000	3,150	73,150
	<u>\$ 2,795,000</u>	<u>\$ 919,681</u>	<u>\$ 3,714,681</u>

Bonds voted	\$ 47,000,000
Bonds approved for sale and sold	7,685,000
Bonds voted and not issued	39,315,000
Refunding bonds voted	12,000,000
Refunding bonds sold	3,100,000
Refunding bonds voted and not issued	8,900,000

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.

The bond issues payable at October 31, 2008, were as follows:

	<u>Series 2000</u>	<u>Series 2003</u>
Amounts outstanding, October 31, 2008	\$1,670,000	\$1,125,000
Interest rates	5.00% to 5.40%	3.20% to 4.50%
Maturity dates, serially beginning/ending	March 1, 2009/2020	September 1, 2009/2024
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates	March 1, 2010*	September 1, 2012*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District 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.

At an election held April 6, 1974, the voters within the District authorized a maintenance tax not to exceed \$0.15 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On November 6, 2008, the District levied the following ad valorem taxes for the 2008 tax year and the 2009 fiscal year on the adjusted taxable valuation of \$84,282,530:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.4400	\$ 370,841
Maintenance	<u>0.1500</u>	<u>126,423</u>
	<u>\$ 0.5900</u>	<u>\$ 497,264</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2008 tax year total property tax levy	\$ 497,264
2008 tax year total property tax levy deferred to 2009 fiscal year	(497,264)
2007 tax year total property tax levy deferred to 2008 fiscal year	418,002
Appraisal district adjustments to prior year taxes	<u>68,252</u>
Statement of Activities property tax revenues	<u>\$ 486,254</u>

NOTE 7: DEPOSITS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$1,249,843 and the bank balance was \$1,260,592. Of the bank balance, \$376,927 was covered by federal insurance and \$883,665 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

Deposits restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash	\$ 59,961
Temporary investments	<u>195,000</u>
	<u>\$ 254,961</u>

Capital Projects Fund

For construction of capital assets:

Cash	<u>\$ 456,874</u>
------	-------------------

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At October 31, 2008, the District had physical damage and boiler and machinery coverage of \$3,860,000, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, pollution liability coverage of \$1,000,000, umbrella liability coverage of \$1,000,000, worker's compensation coverage of \$1,000,000, consultant's crime coverage of \$50,000 and a tax assessor-collector bond of \$10,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: JOINT VENTURES WITH OTHER GOVERNMENTAL UNITS

Wastewater Treatment Plant

The District is a participant with several other districts and developers in the Williamsburg Regional Sewage Treatment Plant (the "Plant"). Oversight of the Plant is exercised by the Williamsburg Regional Sewage Authority (the "Authority"). The Authority is governed by a Board of Delegates whose members are appointed by the boards of directors of the participating districts. Each participating district appoints one delegate.

The Authority was formed by agreements between Harris County Municipal Utility District No. 61 and West Harris County Municipal Utility District No. 2 on September 29, 1976, as amended November 1, 1980, to include Harris County Municipal Utility District Nos. 62, 63, 64, 65, and West Harris County Municipal Utility District No. 5. On August 18, 1999, the participants adopted a resolution which acknowledged the ownership of each participant's capacity in the Williamsburg Regional Sewage Treatment Plant (the "Plant") as follows: Harris County Municipal Utility District No. 61 -- 23.00%; Harris County Municipal Utility District No. 62 -- 11.70%; Harris County Municipal Utility District No. 63 -- 4.75%; Harris County Municipal Utility District No. 64 -- 21.00%; Harris County Municipal Utility District No. 65 -- 13.05%; West Harris County Municipal Utility District No. 2 -- 17.00%; Westside Ventures, Ltd. -- 9.50%. Construction costs of the Plant are funded by the contribution of funds from each participating district. The Authority issues no debt. Each participant records its share of the capital assets of the Plant in its financial statements.

Each participant is responsible only for its share of the operating costs of the Authority which are allocated and billed monthly based upon each participant's equivalent sewer connections serviced by the Authority. During the year ended October 31, 2007, the District's share of the Authority's general expenditures was \$208,275. The District's share of the Authority's operating reserve was \$10,000 at October 31, 2008.

The following summary financial data of the Authority's General Fund is presented for the Authority's fiscal year ended October 31, 2008:

	<u>Authority Total</u>	<u>District's Share</u>
Total assets	\$ 99,820	
Total liabilities	<u>(29,820)</u>	
Total fund balance	70,000	\$ 10,000
Operating reserve	<u>(70,000)</u>	<u>(10,000)</u>
Undesignated fund balance	<u>\$ 0</u>	<u>\$ 0</u>
Total revenues	\$ 593,186	\$ 208,275
Total expenditures	<u>(593,186)</u>	<u>(208,275)</u>
Excess revenues (expenditures)	0	0
Fund balance, beginning of year	<u>70,000</u>	<u>10,000</u>
Fund balance, end of year	<u>\$ 70,000</u>	<u>\$ 10,000</u>

In connection with the expansion of the Plant, developers within another district have agreed to lease a portion of the District's capacity in the Plant until such time as the expansion is completed. \$21,106 in lease revenues were recorded under the terms of this lease during the fiscal year ended October 31, 2008.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Joint Water Plant Facilities

On July 23, 1979, the District, Harris County Municipal Utility District No. 62 (District No. 62) and West Harris County Municipal Utility District No. 2 (District No. 2) entered into a contract for the construction, operation and ownership of joint water plant facilities (the "Facilities"). The contract was for a term of 40 years. On October 8, 1998, the District approved an Agreement for Sale and Assignment of District No. 2's rights in the contract to Harris County Municipal Utility District No. 71 (District No. 71). On August 5, 2002, as amended November 7, 2002, the District purchased District No. 71's rights in the contract. Oversight of the Facilities is exercised by the Board of Directors of the District. The Facilities issues no debt.

The districts share in the costs of operating the Facilities based on the volume of water received by each district. Capital repairs and improvements are shared based on capacity owned. The districts are billed monthly. During the fiscal year ended October 31, 2008, the District's share of the operating cost of the Facilities was \$208,275. Activity of the Facilities is accounted for in the Special Revenue Fund of the District. The District has advanced \$20,000 of the Facilities' \$30,000 operating reserve.

Reimbursement of Drainage Easement Costs

Prior to 1982, the District paid \$100,000 for a drainage easement which benefits other districts. The Commission recommended that the other districts reimburse the District for the pro rata share of the easement plus interest. The District received appropriate reimbursement from several of the other district during prior years. Additional amounts are due from Harris County Municipal Utility District No. 63 (\$8,342 excluding interest) and West Harris County Municipal Utility District No. 5 (\$7,112 excluding interest). These amounts are to be funded from future bond sales and are recorded as receivables in the government-wide financial statements.

NOTE 10: REGIONAL WATER AUTHORITY

The West Harris County Regional Water Authority (the "Authority") was created by House Bill 1842, Acts of the 77th Legislature, Regular Session 2001. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." Surface water pumpage fees are payable to the Authority through the water supply contract with District No. 62 (see Note 9). The well pumpage fees payable to the Authority for the fiscal year ended October 31, 2008, were \$119,520. The District billed its customers \$75,957 during the fiscal year to pay for the fees charged by the Authority. In addition, the District received credits of \$24,048 under the provisions of the Capital Contribution Contract described below.

In 2006, the District and the Authority entered in to a Capital Contribution Contract (the "Contract"). In accordance with the Contract, the District contributed \$355,443 to the Authority during the fiscal year ended October 31, 2007, to pay for its share of the costs of constructing infrastructure to bring surface water to the District. Under the terms of the Contract, the District will receive a credit in the amount of \$12,024 in 2007 and \$24,048 annually for the next 25 calendar years. This credit is to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason; and third, paid to the District by the Authority each in installments as payments are due, not less frequently than annually. The credit is based upon the amortization of the District's contribution beginning in 2007 at a rate of 4.64% over 26 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under the terms of the Contracts are recorded as either a repayment of the principal amount of the prepaid surface water capital contribution or interest earned on the prepayment at the interest rate of the applicable Contract. The principal is amortized based upon the life of the credits and the interest rate of the applicable Contract. During the fiscal year ended May 31, 2008, the District received credits of \$24,048 under the provisions of the Contract. \$7,662 of this amount was recorded as principal and \$16,386 was recorded as interest.

A summary of the amortization of the remaining scheduled credits for the prepaid capital contributions is as follows:

<u>Credits Due During Fiscal Years Ending October 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 8,025	\$ 16,023	\$ 24,048
2010	8,405	15,643	24,048
2011	8,803	15,245	24,048
2012	9,221	14,827	24,048
2013	9,658	14,390	24,048
2014-2018	55,600	64,640	120,240
2019-2023	70,083	50,157	120,240
2024-2028	88,337	31,903	120,240
2029-2033	90,953	9,247	100,200
TOTALS	\$ 349,085	\$ 232,075	\$ 581,160

NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT

Effective April 11, 2003, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$39,578 from the City for the fiscal year ended October 31, 2008.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12: RESTATED BEGINNING OF YEAR BALANCES

During the fiscal year ended October 31, 2008, the District adjusted certain beginning of year fund balances and certain government-wide accruals to properly state the financial position of the District. The effect of these adjustments was to increase the fund balances and net assets as follows:

	<u>Fund Balances</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Net Assets Total</u>
As previously stated	\$ 389,240	\$ 20,000	\$ 744,233	\$ 157,805
Adjustments	<u>417,456</u>	<u>10,000</u>	<u>(29,484)</u>	<u>11,790</u>
Restated	<u><u>\$ 806,696</u></u>	<u><u>\$ 30,000</u></u>	<u><u>\$ 714,749</u></u>	<u><u>\$ 169,595</u></u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED OCTOBER 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 142,592	\$ 142,592	\$ 123,521	\$ (19,071)
Water service	170,000	170,000	145,863	(24,137)
Sewer service	98,000	98,000	94,624	(3,376)
Surface water fees	50,000	50,000	75,957	25,957
Penalty	0	0	6,039	6,039
Lease revenue	32,000	32,000	21,106	(10,894)
Sales and Use Taxes	0	0	39,578	39,578
Interest on prepaid surface water capital cont.	0	0	16,386	16,386
Interest on deposits	15,000	15,000	11,863	(3,137)
Other revenues	500	500	9,848	9,348
TOTAL REVENUES	508,092	508,092	544,785	36,693
EXPENDITURES				
Service operations:				
Purchased services	229,100	229,100	288,603	59,503
Professional fees	71,800	71,800	123,309	51,509
Contracted services	27,000	27,000	23,061	(3,939)
Utilities	7,000	7,000	3,810	(3,190)
Repairs and maintenance	60,000	60,000	46,025	(13,975)
Other operating expenditures	1,750	1,750	1,902	152
Administrative expenditures	65,750	65,750	41,742	(24,008)
Capital outlay	0	0	4,317	4,317
TOTAL EXPENDITURES	462,400	462,400	532,769	70,369
EXCESS REVENUES (EXPENSES)	45,692	45,692	12,016	(33,676)
FUND BALANCE, BEGINNING OF YEAR	806,696	806,696	806,696	0
FUND BALANCE, END OF YEAR	\$ 852,388	\$ 852,388	\$ 818,712	\$ (33,676)

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITYOCTOBER 31, 2008

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in General Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

SCHEDULE OF SERVICES AND RATES

OCTOBER 31, 2008

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$8.50	5,000	N	\$1.25	5,001 to 15,000
				1.5	15,001 to 25,000
				1.75	25,001 to 35,000
				2.25	Over 35,000

WASTEWATER: \$13.00 Y

SURCHARGE: \$0.85 per 1,000 gallons of water used. – WHCRWA surface water fees.*

District employs winter averaging for wastewater usage: Yes ☐ No ☒

Total charges per 10,000 gallons usage: Water: \$14.25 Wastewater: \$13.00 Surcharge: \$8.50

*Increases to \$0.95 per 1,000 gallons of water used effective January 1, 2009.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

SCHEDULE OF SERVICES AND RATES (Continued)

OCTOBER 31, 2008

b. Water and Wastewater Retail Connections (unaudited):

Meter Size	Total Connections	Active Connections	ESFC* Factor	Active ESFCs
Unmetered	0	0	1	0
< or = 3/4"	563	562	1	562
1"	1	1	2.5	3
1-1/2"	3	3	5	15
2"	8	8	8	64
3"	0	0	15	0
4"	0	0	25	0
6"	1	1	50	50
8"	0	0	80	0
10"	0	0	115	0
Total Water	<u>576</u>	<u>575</u>		<u>694</u>
Total Wastewater	<u>572</u>	<u>571</u>	1	<u>571</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 142,726
 Gallons billed to customers (unaudited): 116,049

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 81%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes ☐ No ☒

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

EXPENDITURES

FOR THE YEAR ENDED OCTOBER 31, 2008

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Totals (Memorandum Only)
CURRENT					
Purchased services:					
Water	\$ 208,275	\$	\$	\$	\$ 208,275
Sewer	80,328				80,328
	<u>288,603</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>288,603</u>
Professional fees:					
Auditing	12,300	1,600			13,900
Legal	72,392		1,908		74,300
Engineering	38,617	26,249			64,866
	<u>123,309</u>	<u>27,849</u>	<u>1,908</u>	<u>0</u>	<u>153,066</u>
Contracted services:					
Bookkeeping	10,613	3,850			14,463
Operation and billing	12,448	7,157			19,605
Tax assessor-collector			12,504		12,504
Central appraisal district			4,259		4,259
	<u>23,061</u>	<u>11,007</u>	<u>16,763</u>	<u>0</u>	<u>50,831</u>
Utilities	<u>3,810</u>	<u>58,114</u>	<u>0</u>	<u>0</u>	<u>61,924</u>
Surface water pumpage fees	<u>0</u>	<u>119,520</u>	<u>0</u>	<u>0</u>	<u>119,520</u>
Repairs and maintenance	<u>46,025</u>	<u>55,508</u>	<u>0</u>	<u>0</u>	<u>101,533</u>
Other operating expenditures:					
Chemicals		9,819			9,819
Laboratory costs	829				829
TCEQ assessment	1,073				1,073
	<u>1,902</u>	<u>9,819</u>	<u>0</u>	<u>0</u>	<u>11,721</u>
Administrative expenditures:					
Director's fees	13,600				13,600
Office supplies and postage	12,962	539			13,501
Insurance	5,325	5,571	50		10,946
Permit fees	633	1,353			1,986
Other	9,222		10,813		20,035
	<u>41,742</u>	<u>7,463</u>	<u>10,863</u>	<u>0</u>	<u>60,068</u>
CAPITAL OUTLAY					
Authorized expenditures	<u>4,317</u>	<u>0</u>	<u>0</u>	<u>276,957</u>	<u>281,274</u>
DEBT SERVICE					
Principal retirement	<u>0</u>	<u>0</u>	<u>215,000</u>	<u>0</u>	<u>215,000</u>
Interest and fees:					
Interest			136,488		136,488
Paying agent fees			1,454		1,454
	<u>0</u>	<u>0</u>	<u>137,942</u>	<u>0</u>	<u>137,942</u>
TOTAL EXPENDITURES	<u>\$ 532,769</u>	<u>\$ 289,280</u>	<u>\$ 382,476</u>	<u>\$ 276,957</u>	<u>\$ 1,481,482</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

ANALYSIS OF CHANGES IN DEPOSITS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED OCTOBER 31, 2008

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS					
Cash receipts from revenues excluding maintenance taxes	\$ 440,700	\$ 291,452	\$ 379,770	\$ 19,082	\$ 1,131,004
Maintenance tax collections			123,521		123,521
Maintenance tax transfers	141,872				141,872
Principal repayment from surface water capital contribution	7,662				7,662
Overpayments from taxpayers			1,770		1,770
TOTAL DEPOSITS PROVIDED	<u>590,234</u>	<u>291,452</u>	<u>505,061</u>	<u>19,082</u>	<u>1,405,829</u>
APPLICATIONS OF DEPOSITS					
Cash disbursements for:					
Current expenditures	487,092	315,510	29,404		832,006
Capital outlay	4,317			276,957	281,274
Debt service			352,942		352,942
Decrease in customer deposits	3,400				3,400
Maintenance tax transfers			141,872		141,872
Refund of taxpayer overpayments			2,766		2,766
TOTAL DEPOSITS APPLIED	<u>494,809</u>	<u>315,510</u>	<u>526,984</u>	<u>276,957</u>	<u>1,614,260</u>
INCREASE (DECREASE) IN DEPOSITS	95,425	(24,058)	(21,923)	(257,875)	(208,431)
DEPOSITS BALANCES, BEGINNING OF YEAR	<u>412,667</u>	<u>53,974</u>	<u>276,884</u>	<u>714,749</u>	<u>1,458,274</u>
DEPOSITS BALANCES, END OF YEAR	<u>\$ 508,092</u>	<u>\$ 29,916</u>	<u>\$ 254,961</u>	<u>\$ 456,874</u>	<u>\$ 1,249,843</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61SCHEDULE OF CERTIFICATES OF DEPOSITOCTOBER 31, 2008

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 330034816	3.25%	2/23/09	\$ 95,000	\$ 567
No. 3848211	2.66%	2/23/09	<u>100,000</u>	<u>160</u>
			<u>\$ 195,000</u>	<u>\$ 727</u>
 Total – All Funds			 <u>\$ 195,000</u>	 <u>\$ 727</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED OCTOBER 31, 2008

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 108,288	\$ 318,759
Additions and corrections to prior year taxes	<u>17,344</u>	<u>50,908</u>
Adjusted receivable, beginning of year	125,632	369,667
2008 ADJUSTED TAX ROLL	<u>126,423</u>	<u>370,841</u>
Total to be accounted for	252,055	740,508
Tax collections: Current tax year	0	0
Prior tax years	<u>(123,521)</u>	<u>(363,359)</u>
RECEIVABLE, END OF YEAR	<u>\$ 128,534</u>	<u>\$ 377,149</u>
RECEIVABLE, BY YEARS		
2002	\$ 7	\$ 24
2003	3	14
2004	3	12
2005	114	439
2006	159	465
2007	1,825	5,354
2008	<u>126,423</u>	<u>370,841</u>
RECEIVABLE, END OF YEAR	<u>\$ 128,534</u>	<u>\$ 377,149</u>

Fiscal year 2008 General Fund property tax revenue of \$123,521 under the modified accrual basis of accounting is comprised of prior tax year collections of \$123,521 during fiscal year 2008.

Fiscal year 2008 Debt Service Fund property tax revenue of \$393,359 under the modified accrual basis of accounting is comprised of prior tax year collections of \$393,359 during fiscal year 2008.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED OCTOBER 31, 2008

ADJUSTED PROPERTY VALUATIONS
AS OF JANUARY 1 OF TAX YEAR

	<u>2008***</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 30,237,732	\$ 24,503,964	\$ 23,709,506	\$ 22,698,086
Improvements	66,638,427	78,319,009	75,984,208	73,054,864
Personal property	1,978,977	3,614,828	3,599,843	2,548,410
Less exemptions	<u>(14,572,606)</u>	<u>(18,341,739)</u>	<u>(10,096,467)</u>	<u>(1,814,790)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 84,282,530</u>	 <u>\$ 88,096,062</u>	 <u>\$ 93,197,090</u>	 <u>\$ 96,486,570</u>

TAX RATES PER \$100 VALUATION

Debt service tax rates	\$ 0.44000	\$ 0.44000	\$ 0.44000	\$ 0.50000
Maintenance tax rates*	<u>0.15000</u>	<u>0.15000</u>	<u>0.15000</u>	<u>0.13000</u>

TOTAL TAX RATES PER
\$100 VALUATION

<u>\$ 0.59000</u>	<u>\$ 0.59000</u>	<u>\$ 0.59000</u>	<u>\$ 0.63000</u>
-------------------	-------------------	-------------------	-------------------

TAX ROLLS

<u>\$ 497,264</u>	<u>\$ 418,002</u>	<u>\$ 583,376</u>	<u>\$ 607,611</u>
-------------------	-------------------	-------------------	-------------------

PERCENT OF TAXES COLLECTED
TO TAXES LEVIED

<u>0.0%**</u>	<u>98.6 %*</u>	<u>99.9 %</u>	<u>99.9 %</u>
---------------	----------------	---------------	---------------

*Maximum tax rate approved by voters on April 6, 1974: \$0.15

**The District's taxes are usually levied in the fall and are not delinquent until after the following January 31.

***Approximately \$14,700,000 remained uncertified at October 31, 2008.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARSOCTOBER 31, 2008

Due During Fiscal Years Ending October 31	Series 2000		
	Principal Due March 1	Interest Due March 1, September 1	Total
2009	\$ 140,000	\$ 82,272	\$ 222,272
2010	140,000	75,273	215,273
2011	140,000	68,272	208,272
2012	140,000	61,273	201,273
2013	140,000	54,272	194,272
2014	140,000	47,238	187,238
2015	140,000	40,133	180,133
2016	140,000	32,922	172,922
2017	140,000	25,608	165,608
2018	140,000	18,222	158,222
2019	135,000	10,901	145,901
2020	135,000	3,645	138,645
TOTALS	<u>\$ 1,670,000</u>	<u>\$ 520,031</u>	<u>\$ 2,190,031</u>

Due During Fiscal Years Ending October 31	Series 2003		
	Principal Due September 1	Interest Due March 1, September 1	Total
2009	\$ 75,000	\$ 44,890	\$ 119,890
2010	70,000	42,490	112,490
2011	70,000	40,145	110,145
2012	70,000	37,660	107,660
2013	70,000	35,070	105,070
2014	70,000	32,410	102,410
2015	70,000	29,680	99,680
2016	70,000	26,880	96,880
2017	70,000	24,080	94,080
2018	70,000	21,280	91,280
2019	70,000	18,340	88,340
2020	70,000	15,400	85,400
2021	70,000	12,425	82,425
2022	70,000	9,450	79,450
2023	70,000	6,300	76,300
2024	70,000	3,150	73,150
TOTALS	<u>\$ 1,125,000</u>	<u>\$ 399,650</u>	<u>\$ 1,524,650</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)OCTOBER 31, 2008Annual Requirements for All Series

<u>Due During Fiscal Years Ending October 31</u>	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2009	\$ 215,000	\$ 127,162	\$ 342,162
2010	210,000	117,763	327,763
2011	210,000	108,417	318,417
2012	210,000	98,933	308,933
2013	210,000	89,342	299,342
2014	210,000	79,648	289,648
2015	210,000	69,813	279,813
2016	210,000	59,802	269,802
2017	210,000	49,688	259,688
2018	210,000	39,502	249,502
2019	205,000	29,241	234,241
2020	205,000	19,045	224,045
2021	70,000	12,425	82,425
2022	70,000	9,450	79,450
2023	70,000	6,300	76,300
2024	70,000	3,150	73,150
TOTALS	\$ 2,795,000	\$ 919,681	\$ 3,714,681

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
ANALYSIS OF CHANGES IN GENERAL LONG-TERM BONDED DEBT
FOR THE YEAR ENDED OCTOBER 31, 2008

	<u>(1)</u>	<u>(2)</u>	<u>Totals</u>
Bond Series:	2000	2003	
Interest Rate:	5.00% to 5.40%	3.20% to 4.50%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	
Maturity Dates:	March 1, 2009/2020	March 1, 2009/2024	
Bonds Outstanding at Beginning of Current Year	\$ 1,810,000	\$ 1,200,000	\$ 3,010,000
Less Retirements	<u>(140,000)</u>	<u>(75,000)</u>	<u>(215,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 1,670,000</u>	<u>\$ 1,125,000</u>	<u>\$ 2,795,000</u>
Current Year Interest Paid	<u>\$ 89,273</u>	<u>\$ 47,215</u>	<u>\$ 136,488</u>

Bond Descriptions and Original Amount of Issue

- (1) Harris County Municipal Utility District No. 61 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2000 (\$1,950,000)
- (2) Harris County Municipal Utility District No. 61 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2003 (\$1,275,000)

Paying Agent/Registrar

- (1) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- (2) Wells Fargo Bank Texas, N.A., Houston, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$47,000,000	\$0	\$12,000,000
Amount Issued:	7,685,000		3,100,000
Remaining to be Issued:	39,315,000		8,900,000

Net Debt Service Fund deposits and investments balances as of October 31, 2008:	\$270,000
Average annual debt service payment for remaining term of all debt:	232,168

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES.
GENERAL FUND

FOR YEARS ENDED DECEMBER 31

REVENUES	AMOUNT*					PERCENT OF TOTAL REVENUES				
	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
Property taxes	\$ 123,521	\$ 153,547	\$ 121,280	\$ 116,815	\$ 91,401	22.7 %	27.7 %	23 %	25.7 %	22.1 %
Water service	145,863	122,015	147,690	157,430	140,138	26.8	22.0	28.1	34.6	33.8
Sewer service	94,624	96,432	93,248	96,419	100,046	17.3	17.4	17.7	21.2	24.2
Surface water fees	75,957	52,612	57,789	48,272	39,923	13.9	9.5	11.0	10.6	9.6
Penalty	6,039	15,681	21,537	15,671	10,093	1.1	2.8	4.1	3.4	2.4
Lease revenue	21,106	39,124	46,590	0	0	3.9	7.1	8.9	0.0	0.0
Sales and Use Taxes	39,578	57,718	24,630	14,976	6,687	7.3	10.4	4.7	3.3	1.6
Tap connection and inspection fees	0	900	280	310	22,991	0.0	0.3	0.1	0.1	5.6
Interest on prepaid surface water capital contribution	16,386					3.0				
Interest on deposits	11,863	15,440	13,174	4,840	2,958	2.2	2.8	2.4	1.1	0.7
Other revenues	9,848					1.8				
TOTAL REVENUES	544,785	553,469	526,218	454,733	414,237	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased services	288,603	322,691	222,621	196,163	189,035	53.0	58.3	42.3	43.1	45.6
Professional fees	123,309	83,663	59,472	70,157	77,600	22.6	15.1	11.3	15.4	18.7
Contracted services	23,061	23,446	23,958	22,368	24,044	4.2	4.2	4.6	4.9	5.8
Utilities	3,810	5,496	5,980	3,677	4,495	0.7	1.0	1.1	0.9	1.1
Repairs and maintenance	46,025	65,823	60,991	46,764	81,300	8.5	11.9	11.6	10.3	19.6
Other operating expenditures	1,902	43,138	46,853	40,644	54,770	0.3	7.8	8.9	8.9	13.3
Administrative expenditures	41,742					7.7				
Capital outlay	4,317	2,626	0	0	2,825	0.8	0.5	0.0	0.0	0.7
TOTAL EXPENDITURES	532,769	546,883	419,875	379,773	434,069	97.8	98.8	79.8	83.5	104.8
EXCESS REVENUES (EXPENDITURES)	\$ 12,016	\$ 6,586	\$ 106,343	\$ 74,960	\$ (19,832)	2.2 %	1.2 %	20.2 %	16.5 %	(4.8) %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	575	572	570	569	573					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	571	569	567	569	573					

*Classifications prior to 2008 from 2007 Annual Audit Report.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND

FOR YEARS ENDED DECEMBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
REVENUES										
Property taxes	\$ 363,359	\$ 456,509	\$ 467,121	\$ 504,235	\$ 480,873	95.7 %	92.3 %	95.5 %	96.1 %	98.0 %
Penalty and interest	5,613	25,252	14,926	11,170	5,923	1.5	5.1	3.1	2.1	1.2
Interest on deposits	10,559	12,877	7,240	9,071	4,083	2.8	2.6	1.5	1.8	0.8
TOTAL REVENUES	379,531	494,638	489,287	524,476	490,879	100.0	100.0	100.1	100.0	100.0
EXPENDITURES										
Current:										
Professional fees	1,908	8,815	5,568	2,902	674	0.5	1.7	1.1	0.6	0.1
Contracted services	16,763	15,167	15,438	15,462	14,309	4.4	3.1	3.2	2.8	2.9
Other expenditures	10,863	4,404	7,109	2,904	1,760	2.9	0.9	1.5	0.6	0.4
Debt service:										
Principal retirement	215,000	215,000	340,000	320,000	300,000	56.7	43.5	69.5	61.0	61.1
Interest and fees	137,942	147,194	161,832	181,008	200,112	36.3	29.8	33.1	34.5	40.8
TOTAL EXPENDITURES	382,476	390,580	529,947	522,276	516,855	100.8	79.0	108.4	99.5	105.3
EXCESS REVENUES (EXPENDITURES)	\$ (2,945)	\$ 104,058	\$ (40,660)	\$ 2,200	\$ (25,976)	(0.8) %	21 %	(8.3) %	0.5 %	(5.3) %

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSOCTOBER 31, 2008

Complete District Mailing Address: Harris County Municipal Utility District No. 61
 c/o David M. Marks, P.C.
 3700 Buffalo Speedway, Suite 830
 Houston, Texas 77098

District Business Telephone No.: 713-942-9922

Submission date of the most recent District Registration Form: June 19, 2008

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Dennis A. Gorden c/o David M. Marks, P.C. 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 5/13/06- 5/08/10	\$ 2,550	\$ 663	President
Joseph B. Omowski c/o David M. Marks, P.C. 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 5/13/06- 5/08/10	4,050	1,617	Vice President
R. D. Sherrill c/o David M. Marks, P.C. 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 5/10/08 5/12/12	2,950	1,326	Secretary
Raymond T. Miller c/o David M. Marks, P.C. 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 5/10/08 5/12/12	2,100	300	Assistant Secretary
Alan Blair c/o David M. Marks, P.C. 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 5/10/08 5/12/12	1,950	183	Director

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

OCTOBER 31, 2008

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
David M. Marks, P.C. 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	1/9/03	\$ 73,815	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 N. Loop West, Suite 600 Houston, Texas 77008	2/13/97	1,908	Delinquent Tax Attorney
Myrtle Cruz, Inc. 1621 Milam, Third Floor Houston, Texas 77002	Prior to 11/1/83	16,303	Bookkeeper
Beulah Kelly 1621 Milam, Third Floor Houston, Texas 77002	3/9/00	0	Investment Officer
Hays Utility South Corporation P.O. Box 1209 Spring, Texas 77383	12/4/03	124,803	Operator
A&S Engineers, Inc. 10377 Stella Link Road Houston, Texas 77025	6/16/99	69,184	Engineer
Barbara Wheeler 6935 Barney Road, Suite 110 Houston, Texas 77092	12/15/83	12,504	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	4,259	Central Appraisal District
First Southwest Company 1021 Main Street, Suite 2200 Houston, Texas 77002	2/1/96	0	Financial Advisor
BKD, L.L.P. 2800 Post Oak Blvd., Suite 3200 Houston, Texas 77056	8/15/85	13,900	Independent Auditor
Mark L. Roth 4915 S. Main, Suite 114 Stafford, Texas 77477	8/14/08	0	Independent Auditor

See accompanying independent auditor's report.