

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 61
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
OCTOBER 31, 2012

C O N T E N T S

| | |
|---|-------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 2-7 |
| BASIC FINANCIAL STATEMENTS | |
| STATEMENT OF NET POSITION 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, 2012 | 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 | 33-35 |
| ANALYSIS OF CHANGES IN GENERAL LONG-TERM BONDED DEBT | 36 |
| COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND | 37 |
| COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND | 38 |
| BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS | 39-40 |

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January 22, 2013

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Harris County Municipal Utility District No. 61 as of October 31, 2012, 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. Our responsibility is to express an opinion 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the 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 be presented to supplement the basic financial statements. Such information, although not 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harris County Municipal Utility District No. 61's financial statements as a whole. The supplementary information on Pages 25 to 40 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 financial statements. Except for the portion marked "unaudited," this supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.



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, 2012.

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 position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position 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 position* 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 position*, 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 position presented in the governmental activities column on the statement of net position. 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 position 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 Position

| | <u>2012</u> | <u>2011</u> | <u>Change</u> |
|--|-------------------|---------------------|---------------------|
| Current and other assets | \$ 3,969,878 | \$ 2,348,018 | \$ 1,621,860 |
| Capital assets | <u>5,106,217</u> | <u>5,087,456</u> | <u>18,761</u> |
| Total assets | <u>9,076,095</u> | <u>7,435,474</u> | <u>1,640,621</u> |
| Long-term liabilities | 7,157,844 | 5,319,582 | 1,838,262 |
| Other liabilities | <u>1,398,811</u> | <u>1,011,424</u> | <u>387,387</u> |
| Total liabilities | <u>8,556,655</u> | <u>6,331,006</u> | <u>2,225,649</u> |
| Net position: | | | |
| Invested in capital assets, net of related debt | (2,199,198) | (435,014) | (1,764,184) |
| Restricted | 2,162,639 | 1,089,834 | 1,072,805 |
| Unrestricted | <u>555,999</u> | <u>449,648</u> | <u>106,351</u> |
| Total net position | <u>\$ 519,440</u> | <u>\$ 1,104,468</u> | <u>\$ (585,028)</u> |

Summary of Changes in Net Position

| | <u>2012</u> | <u>2011</u> | <u>Change</u> |
|---|-------------------|---------------------|---------------------|
| Revenues: | | | |
| Property taxes, including related penalty and interest | \$ 688,580 | \$ 709,864 | \$ (21,284) |
| Charges for services | 746,665 | 796,562 | (49,897) |
| Other revenues | <u>24,881</u> | <u>28,162</u> | <u>(3,281)</u> |
| Total revenues | <u>1,460,126</u> | <u>1,534,588</u> | <u>(74,462)</u> |
| Expenses: | | | |
| Service operations | 1,635,189 | 1,021,712 | 613,477 |
| Debt service | <u>409,965</u> | <u>116,814</u> | <u>293,151</u> |
| Total expenses | <u>2,045,154</u> | <u>1,138,526</u> | <u>906,628</u> |
| Excess revenues (expenditures) | (585,028) | 396,062 | (981,090) |
| Special Item: | | | |
| Contribution by others | <u>0</u> | <u>16,727</u> | <u>(16,727)</u> |
| Change in net position | (585,028) | 412,789 | 889,901 |
| Net position, beginning of year | <u>1,104,468</u> | <u>691,679</u> | <u>412,789</u> |
| Net position, end of year | <u>\$ 519,440</u> | <u>\$ 1,104,468</u> | <u>\$ (585,028)</u> |

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended October 31, 2012, were \$2,839,181, an increase of \$1,292,477 from the prior year.

The General Fund balance increased by \$106,095, in accordance with the District's financial plan.

The Special Revenue Fund balance did not change.

The Debt Service Fund balance increased by \$283,219, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$903,163, as proceeds from the sale of the Series 2012 bonds exceeded authorized expenditures.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. There were significant differences between the amended budgetary amounts and the actual amounts. A comparison of budgeted to actual amounts is presented on Page 23 of this report. The budgetary fund balance as of October 31, 2012, was expected to be \$629,624, and the actual end of year fund balance was \$866,943.

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:

| | <u>Capital Assets (Net of Accumulated Depreciation)</u> | | |
|--------------------------|---|---------------------|------------------|
| | <u>2012</u> | <u>2011</u> | <u>Change</u> |
| Land and easements | \$ 19,659 | \$ 19,659 | \$ 0 |
| Amenity pond | 147,086 | 155,257 | (8,171) |
| Construction in progress | 2,808,181 | 3,639,582 | (831,401) |
| Water facilities | 893,891 | 735,600 | 158,291 |
| Sewer facilities | 1,237,400 | 537,358 | 700,042 |
| Totals | <u>\$ 5,106,217</u> | <u>\$ 5,087,456</u> | <u>\$ 18,761</u> |

Changes to capital assets during the fiscal year ended October 31, 2012, are summarized as follows:

| | | |
|---|--|------------------|
| Additions: | | |
| Sanitary sewer rehabilitation | | \$ 652,014 |
| Increase in estimated amount due to developers for construction | | 147,321 |
| Franz road water line engineering | | <u>7,004</u> |
| Total additions to capital assets | | 806,339 |
| Decreases: | | |
| Transfer of subdivision drainage system to Harris County | | (626,257) |
| Depreciation | | <u>(161,321)</u> |
| Net change to capital assets | | <u>\$ 18,761</u> |

Debt

Changes in the bonded debt position of the District during the fiscal year ended October 31, 2012, are summarized as follows:

| | |
|--|---------------------|
| Bonded debt payable, beginning of year | \$ 1,890,000 |
| Sale of Series 2012 bonds | 2,970,000 |
| Bonds paid | <u>(210,000)</u> |
| Bonded debt payable, end of year | <u>\$ 4,650,000</u> |

At October 31, 2012, the District had \$32,030,000 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 Baa1 by Moody's Investors Service (Moody's). The Series 2000 bonds are insured by National Public Finance Guarantee Corp. (formerly Financial Guaranty Insurance Company (FGIC)), and the Series 2003 bonds are insured by American Municipal Bond Assurance Corporation (Ambac). The rating of the District's bonds is Baa1 by Moody's. There were no changes in the ratings of the District's bonds during the fiscal year ended October 31, 2012.

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, 2012, was \$2,801,117.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

As of October 31, 2012, the District's tax base had decreased approximately \$3,200,000 for the 2012 tax year. Approximately \$12,450,000 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 was amended effective December 14, 2009. 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 was required to have a groundwater reduction plan ("GRP"), approved by the Subsidence District and by January 2005, the District must have provided 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 2025, as the date required for the District to restrict the withdrawal of ground water and convert 60% of its total water use to surface water and January 2035, 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 revenue bonds to finance 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 \$1.75 effective January 1, 2012, and is expected to increase in the future. The Authority's surface water usage fee was equal to \$2.15 effective January 1, 2012, 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 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 that it will pass such fees through to its customers in higher water 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 could be required to pay the disincentive fee on withdrawn groundwater. This disincentive fee is substantial, and the District expects it would need to pass such fee through to its customers in higher water rates. This disincentive fee would be in addition to the Authority's fee.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

OCTOBER 31, 2012

| | <u>General</u> | <u>Special Revenue Fund</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> | <u>Adjustments (Note 3)</u> | <u>Statement of Net Position</u> |
|---|---------------------|-------------------------------------|-------------------------|-----------------------------|---------------------|---------------------------------|--|
| ASSETS | | | | | | | |
| Cash, including interest-bearing accounts, Note 7 | \$ 371,775 | \$ 35,070 | \$ 214,320 | \$ 1,616,643 | \$ 2,237,808 | | \$ 2,237,808 |
| Certificates of deposit, at cost, Note 7 | 200,000 | | 440,000 | | 640,000 | | 640,000 |
| Receivables: | | | | | | | |
| Property taxes | 170,017 | | 498,715 | | 668,732 | | 668,732 |
| Accrued penalty and interest on property taxes | | | | | 0 | 3,389 | 3,389 |
| Service accounts | 52,847 | | | | 52,847 | | 52,847 |
| Accrued interest | 75 | | 351 | | 426 | | 426 |
| Other | 5,275 | | 7,441 | | 12,716 | | 12,716 |
| Due from other districts, Note 9 | | 12,731 | | | 12,731 | 7,112 | 19,843 |
| Due from other funds | 15,486 | 24,749 | | | 40,235 | (40,235) | 0 |
| Prepaid surface water capital contribution, Note 10 | 314,630 | | | | 314,630 | | 314,630 |
| Operating reserve at joint plants, Note 9 | 30,000 | | | | 30,000 | (20,000) | 10,000 |
| Groundwater bank certificates, at cost, Note 12 | 9,487 | | | | 9,487 | | 9,487 |
| Capital assets, net of accumulated depreciation, Note 4: | | | | | | | 0 |
| Capital assets not being depreciated | | | | | 0 | 2,827,840 | 2,827,840 |
| Depreciable capital assets | | | | | 0 | 2,278,377 | 2,278,377 |
| Total assets | \$ 1,169,592 | \$ 72,550 | \$ 1,160,827 | \$ 1,616,643 | \$ 4,019,612 | 5,056,483 | 9,076,095 |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ 49,640 | \$ 32,550 | \$ 2,520 | \$ 250 | \$ 84,960 | | 84,960 |
| Construction contract payable | | | | 327,356 | 327,356 | | 327,356 |
| Accrued interest payable | | | | | 0 | 62,537 | 62,537 |
| Customer and builder deposits | 57,935 | | | | 57,935 | | 57,935 |
| Due to other funds | 24,749 | 10,000 | 5,486 | | 40,235 | (40,235) | 0 |
| Other district equity in joint plant | | | | | 0 | 10,000 | 10,000 |
| Deferred property tax revenues | 170,325 | | 499,620 | | 669,945 | (18,095) | 651,850 |
| Long-term liabilities, Note 5: | | | | | | | |
| Due within one year | | | | | 0 | 204,173 | 204,173 |
| Due in more than one year | | | | | 0 | 7,157,844 | 7,157,844 |
| Total liabilities | 302,649 | 42,550 | 507,626 | 327,606 | 1,180,431 | 7,376,224 | 8,556,655 |
| FUND BALANCES / NET POSITION | | | | | | | |
| Fund balances: | | | | | | | |
| Nonspendable: | | | | | | | |
| Prepaid surface water capital contribution, Note 10 | 314,630 | | | | 314,630 | (314,630) | 0 |
| Operating reserve at joint plants, Note 9 | 30,000 | | | | 30,000 | (30,000) | 0 |
| Reserved for groundwater bank certificates, Note 12 | 9,487 | | | | 9,487 | (9,487) | 0 |
| Restricted for: | | | | | | | |
| Operating reserve, Note 9 | | 30,000 | | | 30,000 | (30,000) | 0 |
| Bond interest, Note 5 | | | 49,480 | | 49,480 | (49,480) | 0 |
| Assigned to: | | | | | | | |
| Debt service | | | 603,721 | | 603,721 | (603,721) | 0 |
| Capital projects | | | | 1,289,037 | 1,289,037 | (1,289,037) | 0 |
| Unassigned | 512,826 | | | | 512,826 | (512,826) | 0 |
| Total fund balances | 866,943 | 30,000 | 653,201 | 1,289,037 | 2,839,181 | (2,839,181) | 0 |
| Total liabilities and fund balances | \$ 1,169,592 | \$ 72,550 | \$ 1,160,827 | \$ 1,616,643 | \$ 4,019,612 | | |
| Net position: | | | | | | | |
| Invested in capital assets, net of related debt, Note 4 | | | | | | (2,199,198) | (2,199,198) |
| Restricted for debt service | | | | | | 558,972 | 558,972 |
| Restricted for capital projects | | | | | | 1,289,037 | 1,289,037 |
| Restricted for prepaid surface water capital contribution | | | | | | 314,630 | 314,630 |
| Unrestricted | | | | | | 555,999 | 555,999 |
| Total net position | | | | | | \$ 519,440 | \$ 519,440 |

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, 2012

| | General Fund | Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments (Note 3) | Statement of Activities |
|--|-----------------|----------------------------|-------------------------|-----------------------------|------------------|-------------------------|-------------------------------|
| REVENUES | | | | | | | |
| Property taxes | \$ 178,915 | | \$ 524,816 | | \$ 703,731 | \$ (31,665) | \$ 672,066 |
| Water service | 195,178 | | | | 195,178 | | 195,178 |
| Sewer service | 128,108 | | | | 128,108 | | 128,108 |
| Surface water fees, Note 10 | 183,613 | | | | 183,613 | | 183,613 |
| From participants in plant, Note 9 | | 383,747 | | | 383,747 | (350,320) | 33,427 |
| Penalty and interest | 7,830 | | 15,450 | | 23,280 | 1,064 | 24,344 |
| Tap connection and inspection fees | 158,591 | | | | 158,591 | | 158,591 |
| Sales and Use Taxes, Note 11 | 19,115 | | | | 19,115 | | 19,115 |
| Interest on prepaid surface water capital contribution, Note 10 | 14,827 | | | | 14,827 | | 14,827 |
| Interest on deposits | 1,104 | | 2,893 | 1,769 | 5,766 | | 5,766 |
| Accrued interest on bonds received at date of sale | | | 3,946 | | 3,946 | (3,946) | |
| Other revenues | 8,291 | | 16,800 | | 25,091 | | 25,091 |
| Total revenues | 895,572 | 383,747 | 563,905 | 1,769 | 1,844,993 | (384,867) | 1,460,126 |
| EXPENDITURES / EXPENSES | | | | | | | |
| Service operations: | | | | | | | |
| Purchased services, Note 9 | 438,743 | | | | 438,743 | (350,320) | 88,423 |
| Professional fees | 142,626 | 27,769 | 7,615 | | 178,010 | | 178,010 |
| Contracted services | 28,708 | 10,890 | 17,544 | | 57,142 | | 57,142 |
| Utilities | 11,002 | 60,110 | | | 71,112 | | 71,112 |
| Surface water pumpage fees, Note 10 | | 215,724 | | | 215,724 | | 215,724 |
| Repairs and maintenance | 66,880 | 51,389 | | | 118,269 | | 118,269 |
| Other operating expenditures | 8,424 | 10,787 | | | 19,211 | | 19,211 |
| Administrative expenditures | 35,039 | 7,078 | 4,768 | | 46,885 | | 46,885 |
| Depreciation | | | | | 0 | 161,321 | 161,321 |
| Capital outlay / non-capital outlay | 58,055 | | | 1,639,584 | 1,697,639 | (1,018,547) | 679,092 |
| Debt service: | | | | | | | |
| Principal retirement | | | 210,000 | | 210,000 | (210,000) | 0 |
| Bond issuance expenditures | | | | 230,642 | 230,642 | | 230,642 |
| Interest and fees | | | 150,039 | | 150,039 | 29,284 | 179,323 |
| Total expenditures / expenses | 789,477 | 383,747 | 389,966 | 1,870,226 | 3,433,416 | (1,388,262) | 2,045,154 |
| Excess (deficiency) of revenues over expenditures | 106,095 | 0 | 173,939 | (1,868,457) | (1,588,423) | 1,003,395 | (585,028) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Bonds issued, Note 5 | | | 198,380 | 2,771,620 | 2,970,000 | (2,970,000) | 0 |
| Bond issuance discount, Note 5 | | | (89,100) | | (89,100) | 89,100 | 0 |
| Total other financing sources (uses) | 0 | 0 | 109,280 | 2,771,620 | 2,880,900 | (2,880,900) | 0 |
| Net change in fund balances / net position | 106,095 | 0 | 283,219 | 903,163 | 1,292,477 | (1,877,505) | (585,028) |
| Beginning of year | 760,848 | 30,000 | 369,982 | 385,874 | 1,546,704 | (442,236) | 1,104,468 |
| End of year | \$ 866,943 | \$ 30,000 | \$ 653,201 | \$ 1,289,037 | \$ 2,839,181 | \$ (2,319,741) | \$ 519,440 |

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61NOTES TO THE FINANCIAL STATEMENTSOCTOBER 31, 2012

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 position 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 position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The District first utilizes restricted resources to finance qualifying activities. The government-wide statement of activities reports the components of the changes in net position 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 nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. 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, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. 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 position:

| | | |
|---|--------------------|-------------------|
| Total fund balances, end of year | | \$ 2,839,181 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | | |
| Capital assets, net | | 5,106,217 |
| 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 | \$ (4,650,000) | |
| Less: Issuance discount (to be amortized as interest expense) | 89,100 | |
| Due to developers | <u>(2,801,117)</u> | (7,362,017) |
| 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 | 7,112 | |
| Accrued penalty and interest on property taxes receivable | 3,389 | |
| Uncollected property taxes | <u>18,095</u> | 28,596 |
| Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds: | | |
| Accrued interest | | <u>(62,537)</u> |
| Net position, end of year | | <u>\$ 519,440</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

| | | |
|--|------------------|---------------------|
| Total net change in fund balances | | \$ 1,292,477 |
| <p>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:</p> | | |
| Capital outlay | \$ 1,018,547 | |
| Depreciation | <u>(161,321)</u> | 857,226 |
| <p>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 position. The effect of these differences in the treatment of long-term debt:</p> | | |
| Bonds issued | (2,970,000) | |
| Principal reduction | <u>210,000</u> | (2,760,000) |
| <p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p> | | |
| Issuance discount | | 89,100 |
| <p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p> | | |
| Accrued penalty and interest on property taxes receivable | 1,064 | |
| Uncollected property taxes | <u>(31,665)</u> | (30,601) |
| <p>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:</p> | | |
| Accrued interest | | <u>(33,230)</u> |
| Change in net position | | <u>\$ (585,028)</u> |

NOTE 4: CAPITAL ASSETS

At October 31, 2012, "Invested in capital assets, net of related debt" was \$(2,199,198). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) 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 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, 2012, 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>3,639,582</u> | <u>1,145,571</u> | <u>1,976,972</u> | <u>2,808,181</u> |
| Total capital assets not being depreciated | <u>3,659,241</u> | <u>1,145,571</u> | <u>1,976,972</u> | <u>2,827,840</u> |
| Depreciable capital assets: | | | | |
| Amenity pond improvements | 163,428 | | | 163,428 |
| Water system | 1,899,694 | 232,781 | | 2,132,475 |
| Sewer system | <u>1,350,638</u> | <u>778,702</u> | | <u>2,129,340</u> |
| Total depreciable capital assets | <u>3,413,760</u> | <u>1,011,483</u> | <u>0</u> | <u>4,425,243</u> |
| Less accumulated depreciation for: | | | | |
| Amenity pond improvements | (8,171) | (8,171) | | (16,342) |
| Water system | (1,164,094) | (74,490) | | (1,238,584) |
| Sewer system | <u>(813,280)</u> | <u>(78,660)</u> | | <u>(891,940)</u> |
| Total accumulated depreciation | <u>(1,985,545)</u> | <u>(161,321)</u> | <u>0</u> | <u>(2,146,866)</u> |
| Total depreciable capital assets, net | <u>1,428,215</u> | <u>850,162</u> | <u>0</u> | <u>2,278,377</u> |
| Total capital assets, net | <u>\$ 5,087,456</u> | <u>\$ 1,995,733</u> | <u>\$ 1,976,972</u> | <u>\$ 5,106,217</u> |
| Changes to capital assets: | | | | |
| Capital outlay | | \$ 1,644,804 | \$ | |
| Assets transferred to depreciable assets | | 364,929 | 364,929 | |
| Transfer of subdivision drainage system to Harris County | | | 626,257 | |
| Decrease in liability to developer | | | 985,786 | |
| Increase in liability to developer | | 147,321 | | |
| Less depreciation expense for the fiscal year | | <u>(161,321)</u> | | |
| Net increases / decreases to capital assets | | <u>\$ 1,995,733</u> | <u>\$ 1,976,972</u> | |

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended October 31, 2012 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 | \$ 1,890,000 | \$ 2,970,000 | \$ 210,000 | \$ 4,650,000 | \$ 210,000 |
| Less deferred amounts: | | | | | |
| For issuance discounts | <u>0</u> | <u>(89,100)</u> | <u>0</u> | <u>(89,100)</u> | <u>(5,827)</u> |
| Total bonds payable | <u>1,890,000</u> | <u>2,880,900</u> | <u>210,000</u> | <u>4,560,900</u> | <u>204,173</u> |
| Due to developer (See below) | <u>3,639,582</u> | <u>147,321</u> | <u>985,786</u> | <u>2,801,117</u> | <u>-----</u> |
| Total long-term liabilities | <u>\$ 5,529,582</u> | <u>\$ 3,028,221</u> | <u>\$ 1,195,786</u> | <u>\$ 7,362,017</u> | <u>\$ 204,173</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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, 2012, was \$2,801,117. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

As of October 31, 2012, the debt service requirements on the bonds outstanding were as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------|---------------------|---------------------|---------------------|
| 2013 | \$ 210,000 | \$ 184,110 | \$ 394,110 |
| 2014 | 210,000 | 174,415 | 384,415 |
| 2015 | 210,000 | 164,580 | 374,580 |
| 2016 | 210,000 | 154,570 | 364,570 |
| 2017 | 210,000 | 144,455 | 354,455 |
| 2018 - 2022 | 1,090,000 | 602,255 | 1,692,255 |
| 2023 - 2027 | 1,115,000 | 408,286 | 1,523,286 |
| 2028 - 2032 | 1,145,000 | 193,700 | 1,338,700 |
| 2033 | 250,000 | 10,500 | 260,500 |
| | <u>\$ 4,650,000</u> | <u>\$ 2,036,871</u> | <u>\$ 6,686,871</u> |

| | |
|--------------------------------------|---------------|
| Bonds voted | \$ 42,685,000 |
| Bonds approved for sale and sold | 10,655,000 |
| Bonds voted and not issued | 32,030,000 |
| 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.

In accordance with the Series 2012 Bond Order, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

| | |
|---|------------------|
| 12 months' interest from sale of bonds | \$ 109,280 |
| Accrued interest received at date of sale | 3,946 |
| | <u>113,226</u> |
| Appropriation for bond interest paid | <u>(63,746)</u> |
| Bond interest reserve, end of year | <u>\$ 49,480</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The bond issues payable at October 31, 2012, were as follows:

| | <u>Series 2000</u> | <u>Series 2003</u> | <u>Series 2012</u> |
|--|---------------------|------------------------|------------------------|
| Amounts outstanding, October 31, 2012 | \$840,000 | \$840,000 | \$2,970,000 |
| Interest rates | 5.00% to 5.30% | 3.80% to 4.50% | 2.50% to 4.20% |
| Maturity dates, serially beginning/ending | March 1, 2013/2018 | September 1, 2013/2024 | September 1, 2019/2033 |
| Interest payment dates | March 1/September 1 | March 1/September 1 | March 1/September 1 |
| Callable dates | March 1, 2010* | September 1, 2012* | September 1, 2020* |

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

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 October 23, 2012, the District levied the following ad valorem taxes for the 2012 tax year and the 2013 fiscal year on the adjusted taxable valuation of \$110,278,070:

| | <u>Rate</u> | <u>Amount</u> |
|--------------|------------------|-------------------|
| Debt service | \$ 0.4400 | \$ 485,221 |
| Maintenance | <u>0.1500</u> | <u>165,416</u> |
| | <u>\$ 0.5900</u> | <u>\$ 650,637</u> |

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

| | |
|---|-------------------|
| 2012 tax year total property tax levy | \$ 650,637 |
| 2012 tax year total property tax levy deferred to 2013 fiscal year | (650,637) |
| 2011 tax year total property tax levy deferred to 2012 fiscal year | 630,678 |
| Appraisal district adjustments to prior year taxes | <u>41,388</u> |
| Statement of Activities property tax revenues | <u>\$ 672,066</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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 \$2,877,808 and the bank balance was \$1,220,109. Of the bank balance, \$982,499 was covered by federal insurance and \$1,936,256 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 | \$ | 214,320 |
| Temporary investments | | <u>440,000</u> |
| | \$ | <u>654,320</u> |

Capital Projects Fund

For construction of capital assets:

| | | |
|------|----|------------------|
| Cash | \$ | <u>1,616,643</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, 2012, the District had physical damage and boiler and machinery coverage of \$4,139,990, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, 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. The governing contract has been amended on August 15, 2001, March 17, 2004, June 17, 2009, December 16, 2009, June 16, 2010 and June 20, 2012. On August 18, 2010, 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 -- 15.33%; Harris County Municipal Utility District No. 62 -- 16.87%; Harris County Municipal Utility District No. 63 -- 4.64%; Harris County Municipal Utility District No. 64 -- 14.84%; Harris County Municipal Utility District No. 65 -- 18.04%; West Harris County Municipal Utility District No. 2 -- 16.34%; West Harris County Municipal Utility District No. 5 -- 10.08%; Westside Ventures, Ltd. -- 3.86%. 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, 2012, the District's share of the Authority's general and capital outlay expenditures was \$88,423 and \$16,234, respectively. The District's share of the Authority's operating reserve was \$10,000 at October 31, 2012.

The following summary financial data of the Authority's General Fund is presented for the Authority's fiscal year ended October 31, 2012:

| | <u>Authority Total</u> | <u>District's Share</u> |
|---------------------------------|----------------------------|-----------------------------|
| Total assets | \$ 106,740 | |
| Total liabilities | <u>(36,740)</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 | \$ 826,413 | \$ 104,657 |
| Total expenditures | <u>(826,413)</u> | <u>(104,657)</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> |

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, 2012, the District's share of the operating cost of the Facilities was \$350,320. 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 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 for the joint water plant to the Authority for the fiscal year ended October 31, 2012, were \$215,724. The District billed its customers \$183,613 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 October 31, 2012, the District received credits of \$24,048 under the provisions of the Contract. \$9,221 of this amount was recorded as principal and \$14,827 was recorded as interest.

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

| Credits Due During Fiscal Years Ending October 31 | Principal | Interest | Total |
|---|-------------------|-------------------|-------------------|
| 2013 | \$ 9,658 | \$ 14,390 | \$ 24,048 |
| 2014 | 10,115 | 13,933 | 24,048 |
| 2015 | 10,594 | 13,454 | 24,048 |
| 2016 | 11,096 | 12,952 | 24,048 |
| 2017 | 11,622 | 12,426 | 24,048 |
| 2018-2022 | 66,913 | 53,327 | 120,240 |
| 2023-2027 | 84,340 | 35,900 | 120,240 |
| 2028-2032 | 106,308 | 13,932 | 120,240 |
| 2033 | 3,984 | 24 | 4,008 |
| | <u>\$ 314,630</u> | <u>\$ 170,338</u> | <u>\$ 484,968</u> |

NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT

Effective April 11, 2003 (amended effective December 14, 2012), 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 \$19,115 from the City for the fiscal year ended October 31, 2012.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12: GROUNDWATER BANK CERTIFICATES

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the "HGCSO"). These certificates expire in 40 years (certificates issued after August 1, 2001 expire in 20 years) and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the District. Certificates can also be used in lieu of a \$5.00 per 1,000 gallons disincentive fee assessed by the District for ground water pumpage in excess of the District's permit as amended. At October 31, 2012, the District had in its possession certificates totaling 25,250,400 gallons of water (9,542,400 40 year certificates and 15,708,000 20 year certificates). The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$9,487 at October 31, 2012.

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, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Property taxes | \$ 167,765 | \$ 167,765 | \$ 178,915 | \$ 11,150 |
| Water service | 170,000 | 170,000 | 195,178 | 25,178 |
| Sewer service | 120,000 | 120,000 | 128,108 | 8,108 |
| Surface water fees | 179,300 | 179,300 | 183,613 | 4,313 |
| Penalty | 0 | 0 | 7,830 | 7,830 |
| Tap connection and inspection fees | 0 | 0 | 158,591 | 158,591 |
| Sales and Use Taxes | 20,000 | 20,000 | 19,115 | (885) |
| Interest on prepaid surface water capital cont. | 0 | 0 | 14,827 | 14,827 |
| Interest on deposits | 1,800 | 1,800 | 1,104 | (696) |
| Other revenues | 500 | 500 | 8,291 | 7,791 |
| TOTAL REVENUES | 659,365 | 659,365 | 895,572 | 236,207 |
| EXPENDITURES | | | | |
| Service operations: | | | | |
| Purchased services | 426,789 | 426,789 | 438,743 | 11,954 |
| Professional fees | 133,000 | 133,000 | 142,626 | 9,626 |
| Contracted services | 25,000 | 25,000 | 28,708 | 3,708 |
| Utilities | 5,200 | 5,200 | 11,002 | 5,802 |
| Repairs and maintenance | 131,500 | 131,500 | 66,880 | (64,620) |
| Other operating expenditures | 1,800 | 1,800 | 8,424 | 6,624 |
| Administrative expenditures | 62,300 | 62,300 | 35,039 | (27,261) |
| Capital outlay | 5,000 | 5,000 | 58,055 | 53,055 |
| TOTAL EXPENDITURES | 790,589 | 790,589 | 789,477 | (1,112) |
| EXCESS REVENUES (EXPENSES) | (131,224) | (131,224) | 106,095 | 237,319 |
| FUND BALANCE, BEGINNING OF YEAR | 760,848 | 760,848 | 760,848 | 0 |
| FUND BALANCE, END OF YEAR | \$ 629,624 | \$ 629,624 | \$ 866,943 | \$ 237,319 |

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. 61
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND
FOR THE YEAR ENDED OCTOBER 31, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| From participants in plant: | | | | |
| Harris County Municipal Utility District No. 61 | \$ 334,800 | \$ 334,800 | \$ 350,320 | \$ 15,520 |
| Harris County Municipal Utility District No. 62 | 0 | 0 | 33,427 | 33,427 |
| Interest on deposits | 0 | 0 | 0 | 0 |
| TOTAL REVENUES | <u>334,800</u> | <u>334,800</u> | <u>383,747</u> | <u>48,947</u> |
| EXPENDITURES | | | | |
| Service operations: | | | | |
| Professional fees | 16,000 | 16,000 | 27,769 | 11,769 |
| Contracted services | 12,300 | 12,300 | 10,890 | (1,410) |
| Utilities | 52,000 | 52,000 | 60,110 | 8,110 |
| Surface water pumpage fees | 205,000 | 205,000 | 215,724 | 10,724 |
| Repairs and maintenance | 30,000 | 30,000 | 51,389 | 21,389 |
| Other operating expenditures | 12,000 | 12,000 | 10,787 | (1,213) |
| Administrative expenditures | 7,500 | 7,500 | 7,078 | (422) |
| TOTAL EXPENDITURES | <u>334,800</u> | <u>334,800</u> | <u>383,747</u> | <u>48,947</u> |
| EXCESS REVENUES (EXPENSES) | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| FUND BALANCE, BEGINNING OF YEAR | <u>30,000</u> | <u>30,000</u> | <u>30,000</u> | <u>0</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 30,000</u> | <u>\$ 30,000</u> | <u>\$ 30,000</u> | <u>\$ 0</u> |

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. 61
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
OCTOBER 31, 2012

(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, 2012

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):

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1000 Gallons Over Minimum</u> | <u>Usage Levels</u> |
|-------------|-----------------------|----------------------|----------------------|---|---------------------|
| WATER: | \$10.00 | 5,000 | N | \$1.35 | 5,001 to 15,000 |
| | | | | 1.60 | 15,001 to 25,000 |
| | | | | 1.85 | 25,001 to 35,000 |
| | | | | 2.35 | Over 35,000 |
| WASTEWATER: | \$15.00 | | Y | | |

SURCHARGE: \$1.71 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: \$16.75 Wastewater: \$15.00 Surcharge: \$17.10

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

SCHEDULE OF SERVICES AND RATES (Continued)

OCTOBER 31, 2012

b. Water and Wastewater Retail Connections (unaudited):

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC*</u> <u>Factor</u> | <u>Active ESFCs</u> |
|-------------------|--------------------------|---------------------------|-------------------------------|---------------------|
| Unmetered | 0 | 0 | 1 | 0 |
| < or = 3/4" | 573 | 570 | 1 | 570 |
| 1" | 4 | 4 | 2.5 | 10 |
| 1-1/2" | 3 | 3 | 5 | 15 |
| 2" | 20 | 20 | 8 | 160 |
| 3" | 0 | 0 | 15 | 0 |
| 4" | 0 | 0 | 25 | 0 |
| 6" | 0 | 0 | 50 | 0 |
| 8" | 2 | 2 | 80 | 160 |
| 10" | 0 | 0 | 115 | 0 |
| Total Water | <u>602</u> | <u>599</u> | | <u>915</u> |
| Total Wastewater | <u>596</u> | <u>593</u> | 1 | <u>593</u> |

*Single family equivalents

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

| | |
|---|----------------|
| Gallons pumped into system (unaudited): | <u>123,741</u> |
| Gallons billed to No. 61 customers (unaudited): | <u>105,691</u> |
| Gallons billed to No. 62 customers (unaudited): | <u>9,364</u> |
| Total gallons billed to customers (unaudited): | <u>115,055</u> |

Water Accountability Ratio
(Gallons billed/ gallons pumped): 93%

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 auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

EXPENDITURES

FOR THE YEAR ENDED OCTOBER 31, 2012

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Totals (Memorandum Only)</u> |
|-------------------------------|-------------------------|-------------------------------------|----------------------------------|--------------------------------------|---|
| CURRENT | | | | | |
| Purchased services: | | | | | |
| Water | \$ 350,320 | \$ | \$ | \$ | \$ 350,320 |
| Sewer | 88,423 | | | | 88,423 |
| | <u>438,743</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>438,743</u> |
| Professional fees: | | | | | |
| Auditing | 9,500 | 1,000 | | | 10,500 |
| Legal | 81,713 | 1,313 | 7,615 | | 90,641 |
| Engineering | 51,413 | 25,456 | | | 76,869 |
| | <u>142,626</u> | <u>27,769</u> | <u>7,615</u> | <u>0</u> | <u>178,010</u> |
| Contracted services: | | | | | |
| Bookkeeping | 10,488 | 3,700 | | | 14,188 |
| Operation and billing | 18,220 | 7,190 | | | 25,410 |
| Tax assessor-collector | | | 12,099 | | 12,099 |
| Central appraisal district | | | 5,445 | | 5,445 |
| | <u>28,708</u> | <u>10,890</u> | <u>17,544</u> | <u>0</u> | <u>57,142</u> |
| Utilities | <u>11,002</u> | <u>60,110</u> | <u>0</u> | <u>0</u> | <u>71,112</u> |
| Surface water pumpage fees | <u>0</u> | <u>215,724</u> | <u>0</u> | <u>0</u> | <u>215,724</u> |
| Repairs and maintenance | <u>66,880</u> | <u>51,389</u> | <u>0</u> | <u>0</u> | <u>118,269</u> |
| Other operating expenditures: | | | | | |
| Chemicals | | 10,787 | | | 10,787 |
| Laboratory costs | 4,945 | | | | 4,945 |
| TCEQ assessment | 2,934 | | | | 2,934 |
| Other | 545 | | | | 545 |
| | <u>8,424</u> | <u>10,787</u> | <u>0</u> | <u>0</u> | <u>19,211</u> |
| Administrative expenditures: | | | | | |
| Director's fees | 11,100 | | | | 11,100 |
| Office supplies and postage | 16,065 | 581 | | | 16,646 |
| Insurance | 4,777 | 6,497 | 50 | | 11,324 |
| Other | 3,097 | | 4,718 | | 7,815 |
| | <u>35,039</u> | <u>7,078</u> | <u>4,768</u> | <u>0</u> | <u>46,885</u> |
| CAPITAL OUTLAY | | | | | |
| Authorized expenditures | 5,058 | | | 1,639,584 | 1,644,642 |
| Tap connection fees | 52,997 | | | | 52,997 |
| | <u>58,055</u> | <u>0</u> | <u>0</u> | <u>1,639,584</u> | <u>1,697,639</u> |
| DEBT SERVICE | | | | | |
| Principal retirement | <u>0</u> | <u>0</u> | 210,000 | <u>0</u> | <u>210,000</u> |
| Bond issuance expenditures | <u>0</u> | <u>0</u> | <u>0</u> | 230,642 | <u>230,642</u> |
| Interest and fees: | | | | | |
| Interest | | | 148,167 | | 148,167 |
| Paying agent fees | | | 1,872 | | 1,872 |
| | <u>0</u> | <u>0</u> | <u>150,039</u> | <u>0</u> | <u>150,039</u> |
| TOTAL EXPENDITURES | <u>\$ 789,477</u> | <u>\$ 383,747</u> | <u>\$ 389,966</u> | <u>\$ 1,870,226</u> | <u>\$ 3,433,416</u> |

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

ANALYSIS OF CHANGES IN DEPOSITS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED OCTOBER 31, 2012

| | <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 | \$ 694,482 | \$ 373,601 | \$ 558,038 | \$ 1,769 | \$ 1,627,890 |
| Maintenance tax collections | | | 178,915 | | 178,915 |
| Maintenance tax transfers | 179,761 | | | | 179,761 |
| Proceeds from sale of bonds | | | 109,280 | 2,771,620 | 2,880,900 |
| Increase in customer and builder deposits | 14,636 | | | | 14,636 |
| Principal repayment from surface water capital contribution | 9,221 | | | | 9,221 |
| Overpayments from taxpayers | | | 2,436 | | 2,436 |
| TOTAL DEPOSITS PROVIDED | <u>898,100</u> | <u>373,601</u> | <u>848,669</u> | <u>2,773,389</u> | <u>4,893,759</u> |
| APPLICATIONS OF DEPOSITS | | | | | |
| Cash disbursements for: | | | | | |
| Current expenditures | 741,653 | 368,445 | 28,542 | | 1,138,640 |
| Capital outlay | 58,055 | | | 1,311,978 | 1,370,033 |
| Debt service | | | 360,039 | 230,642 | 590,681 |
| Maintenance tax transfers | | | 179,761 | | 179,761 |
| Refund of taxpayer overpayments | | | 2,322 | | 2,322 |
| TOTAL DEPOSITS APPLIED | <u>799,708</u> | <u>368,445</u> | <u>570,664</u> | <u>1,542,620</u> | <u>3,281,437</u> |
| INCREASE (DECREASE) IN DEPOSITS | 98,392 | 5,156 | 278,005 | 1,230,769 | 1,612,322 |
| DEPOSITS BALANCES, BEGINNING OF YEAR | <u>473,383</u> | <u>29,914</u> | <u>376,315</u> | <u>385,874</u> | <u>1,265,486</u> |
| DEPOSITS BALANCES, END OF YEAR | <u>\$ 571,775</u> | <u>\$ 35,070</u> | <u>\$ 654,320</u> | <u>\$ 1,616,643</u> | <u>\$ 2,877,808</u> |

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61SCHEDULE OF CERTIFICATES OF DEPOSITOCTOBER 31, 2012

| | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Year End Balance</u> | <u>Accrued Interest Receivable</u> |
|-------------------------|--------------------------|--------------------------|-----------------------------|--|
| GENERAL FUND | | | | |
| Certificate of Deposit | | | | |
| No. 139535 | 0.39% | 3/25/13 | \$ <u>200,000</u> | \$ <u>75</u> |
| DEBT SERVICE FUND | | | | |
| Certificates of Deposit | | | | |
| No. 4121034 | 0.50% | 2/20/13 | \$ 240,000 | \$ 237 |
| No. 530783 | 0.299% | 2/20/13 | <u>200,000</u> | <u>114</u> |
| | | | <u>\$ 440,000</u> | <u>\$ 351</u> |
| Total – All Funds | | | <u>\$ 640,000</u> | <u>\$ 426</u> |

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED OCTOBER 31, 2012

| | <u>Maintenance Taxes</u> | <u>Debt Service Taxes</u> |
|---|------------------------------|-----------------------------------|
| RECEIVABLE, BEGINNING OF YEAR | \$ 172,993 | \$ 507,445 |
| Additions and corrections to prior year taxes | <u>10,831</u> | <u>31,770</u> |
| Adjusted receivable, beginning of year | 183,824 | 539,215 |
| 2012 ADJUSTED TAX ROLL | <u>165,416</u> | <u>485,221</u> |
| Total to be accounted for | 349,240 | 1,024,436 |
| Tax collections: Current tax year | (308) | (905) |
| Prior tax years | <u>(178,915)</u> | <u>(524,816)</u> |
| RECEIVABLE, END OF YEAR | <u>\$ 170,017</u> | <u>\$ 498,715</u> |
| RECEIVABLE, BY YEARS | | |
| 2007 | \$ 168 | \$ 491 |
| 2008 | 186 | 546 |
| 2009 | 373 | 1,093 |
| 2010 | 983 | 2,884 |
| 2011 | 3,199 | 9,385 |
| 2012 | <u>165,108</u> | <u>484,316</u> |
| RECEIVABLE, END OF YEAR | <u>\$ 170,017</u> | <u>\$ 498,715</u> |

Fiscal year 2012 General Fund property tax revenue of \$178,915 under the modified accrual basis of accounting is comprised of prior tax year collections of \$178,915 during fiscal year 2012.

Fiscal year 2012 Debt Service Fund property tax revenue of \$524,816 under the modified accrual basis of accounting is comprised of prior tax year collections of \$524,816 during fiscal year 2012.

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED OCTOBER 31, 2012

| ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR | <u>2012***</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Land | \$ 37,652,115 | \$ 44,525,265 | \$ 43,802,358 | \$ 41,377,251 |
| Improvements | 91,814,086 | 86,134,445 | 83,919,497 | 87,404,221 |
| Personal property | 1,919,715 | 4,726,159 | 4,447,983 | 2,867,857 |
| Less exemptions | <u>(21,107,846)</u> | <u>(21,878,772)</u> | <u>(22,682,308)</u> | <u>(18,890,048)</u> |
| TOTAL PROPERTY VALUATIONS | <u>\$ 110,278,070</u> | <u>\$ 113,507,097</u> | <u>\$ 109,487,530</u> | <u>\$ 112,759,281</u> |
| TAX RATES PER \$100 VALUATION | | | | |
| Debt service tax rates | \$ 0.44000 | \$ 0.44000 | \$ 0.44000 | \$ 0.44000 |
| Maintenance tax rates* | <u>0.15000</u> | <u>0.15000</u> | <u>0.15000</u> | <u>0.15000</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u>\$ 0.59000</u> | <u>\$ 0.59000</u> | <u>\$ 0.59000</u> | <u>\$ 0.59000</u> |
| TAX ROLLS | <u>\$ 650,637</u> | <u>\$ 669,689</u> | <u>\$ 645,974</u> | <u>\$ 665,186</u> |
| PERCENT OF TAXES COLLECTED TO TAXES LEVIED | <u>0.1%**</u> | <u>98.1%*</u> | <u>99.4 %</u> | <u>99.8 %</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 \$12,450,000 remained uncertified at October 31, 2012.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS
OCTOBER 31, 2012

| <u>Series 2000</u> | | | |
|--|--------------------------------------|--|-------------------|
| <u>Due During Fiscal Years Ending October 31</u> | <u>Principal Due March 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2013 | \$ 140,000 | \$ 39,760 | \$ 179,760 |
| 2014 | 140,000 | 32,725 | 172,725 |
| 2015 | 140,000 | 25,620 | 165,620 |
| 2016 | 140,000 | 18,410 | 158,410 |
| 2017 | 140,000 | 11,095 | 151,095 |
| 2018 | <u>140,000</u> | <u>3,710</u> | <u>143,710</u> |
| TOTALS | <u>\$ 840,000</u> | <u>\$ 131,320</u> | <u>\$ 971,320</u> |

| <u>Series 2003</u> | | | |
|--|--|--|---------------------|
| <u>Due During Fiscal Years Ending October 31</u> | <u>Principal Due September 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 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 | <u>70,000</u> | <u>3,150</u> | <u>73,150</u> |
| TOTALS | <u>\$ 840,000</u> | <u>\$ 234,465</u> | <u>\$ 1,074,465</u> |

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

OCTOBER 31, 2012

| <u>Due During Fiscal Years Ending October 31</u> | <u>Series 2012</u> | | |
|--|--|--|---------------------|
| | <u>Principal Due September 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2013 | \$ | \$ 109,280 | \$ 109,280 |
| 2014 | | 109,280 | 109,280 |
| 2015 | | 109,280 | 109,280 |
| 2016 | | 109,280 | 109,280 |
| 2017 | | 109,280 | 109,280 |
| 2018 | | 109,280 | 109,280 |
| 2019 | 150,000 | 109,280 | 259,280 |
| 2020 | 150,000 | 105,530 | 255,530 |
| 2021 | 150,000 | 101,030 | 251,030 |
| 2022 | 150,000 | 96,530 | 246,530 |
| 2023 | 150,000 | 91,654 | 241,654 |
| 2024 | 150,000 | 86,780 | 236,780 |
| 2025 | 225,000 | 81,530 | 306,530 |
| 2026 | 225,000 | 73,654 | 298,654 |
| 2027 | 225,000 | 65,218 | 290,218 |
| 2028 | 225,000 | 56,780 | 281,780 |
| 2029 | 225,000 | 47,780 | 272,780 |
| 2030 | 225,000 | 38,780 | 263,780 |
| 2031 | 230,000 | 29,780 | 259,780 |
| 2032 | 240,000 | 20,580 | 260,580 |
| 2033 | 250,000 | 10,500 | 260,500 |
| TOTALS | <u>\$ 2,970,000</u> | <u>\$ 1,671,086</u> | <u>\$ 4,641,086</u> |

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

OCTOBER 31, 2012

| <u>Due During Fiscal Years Ending October 31</u> | <u>Annual Requirements for All Series</u> | | |
|--|---|-----------------------------------|---------------------|
| | <u>Total Principal Due</u> | <u>Total Interest Due</u> | <u>Total</u> |
| 2013 | \$ 210,000 | \$ 184,110 | \$ 394,110 |
| 2014 | 210,000 | 174,415 | 384,415 |
| 2015 | 210,000 | 164,580 | 374,580 |
| 2016 | 210,000 | 154,570 | 364,570 |
| 2017 | 210,000 | 144,455 | 354,455 |
| 2018 | 210,000 | 134,270 | 344,270 |
| 2019 | 220,000 | 127,620 | 347,620 |
| 2020 | 220,000 | 120,930 | 340,930 |
| 2021 | 220,000 | 113,455 | 333,455 |
| 2022 | 220,000 | 105,980 | 325,980 |
| 2023 | 220,000 | 97,954 | 317,954 |
| 2024 | 220,000 | 89,930 | 309,930 |
| 2025 | 225,000 | 81,530 | 306,530 |
| 2026 | 225,000 | 73,654 | 298,654 |
| 2027 | 225,000 | 65,218 | 290,218 |
| 2028 | 225,000 | 56,780 | 281,780 |
| 2029 | 225,000 | 47,780 | 272,780 |
| 2030 | 225,000 | 38,780 | 263,780 |
| 2031 | 230,000 | 29,780 | 259,780 |
| 2032 | 240,000 | 20,580 | 260,580 |
| 2033 | <u>250,000</u> | <u>10,500</u> | <u>260,500</u> |
| TOTALS | <u>\$ 4,650,000</u> | <u>\$ 2,036,871</u> | <u>\$ 6,686,871</u> |

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
ANALYSIS OF CHANGES IN GENERAL LONG-TERM BONDED DEBT
FOR THE YEAR ENDED OCTOBER 31, 2012

| | <u>(1)</u> | <u>(2)</u> | <u>(3)</u> | <u>Totals</u> |
|---|-------------------------|---------------------------|-----------------------------|---------------------|
| Bond Series: | 2000 | 2003 | 2012 | |
| Interest Rate: | 5.00% to 5.30% | 3.80% to 4.50% | 2.50% to 4.20% | |
| Dates Interest Payable: | March 1/ September 1 | March 1/ September 1 | March 1/ September 1 | |
| Maturity Dates: | March 1, 2013/2018 | September 1, 2013/2024 | September 1, 2019/2033 | |
| Bonds Outstanding at Beginning of Current Year | \$ 980,000 | \$ 910,000 | \$ 0 | \$ 1,890,000 |
| Add Bonds Sold: | | | 2,970,000 | 2,970,000 |
| Less Retirements | <u>(140,000)</u> | <u>(70,000)</u> | <u> </u> | <u>(210,000)</u> |
| Bonds Outstanding at End of Current Year | <u>\$ 840,000</u> | <u>\$ 840,000</u> | <u>\$ 2,970,000</u> | <u>\$ 4,650,000</u> |
| Current Year Interest Paid | <u>\$ 46,761</u> | <u>\$ 37,660</u> | <u>\$ 63,746</u> | <u>\$ 148,167</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)
- (3) Harris County Municipal Utility District No. 61 Waterworks and Sewer System Unlimited Tax Bonds, Series 2012 (\$2,970,000)

Paying Agent/Registrar

- (1) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- (2) (3) 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: | \$ 42,685,000 | \$0 | \$12,000,000 |
| Amount Issued: | 10,655,000 | | 3,100,000 |
| Remaining to be Issued: | 32,030,000 | | 8,900,000 |

Net Debt Service Fund deposits and investments balances as of October 31, 2012: \$653,201
Average annual debt service payment for remaining term of all debt: 318,422

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED DECEMBER 31

| | AMOUNT | | | | | PERCENT OF TOTAL REVENUES | | | | |
|--|-------------------|------------------|--------------------|---------------------|----------------|---------------------------|--------------|-----------------|-----------------|--------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2012 | 2011 | 2010 | 2009 | 2008 |
| REVENUES | | | | | | | | | | |
| Property taxes | \$ 178,915 | \$ 167,896 | \$ 162,230 | \$ 147,047 | \$ 123,521 | 20.0 % | 17.3 % | 26.5 % | 24.3 % | 22.7 % |
| Water service | 195,178 | 210,657 | 164,183 | 171,626 | 145,863 | 21.8 | 21.7 | 26.8 | 28.3 | 26.8 |
| Sewer service | 128,108 | 116,826 | 118,418 | 98,700 | 94,624 | 14.3 | 12.0 | 19.3 | 16.2 | 17.3 |
| Surface water fees | 183,613 | 203,883 | 103,250 | 95,412 | 75,957 | 20.5 | 21.0 | 16.8 | 15.7 | 13.9 |
| Penalty | 7,830 | 18,644 | 6,305 | 6,814 | 6,039 | 0.9 | 1.9 | 1.0 | 1.1 | 1.1 |
| Tap connection and inspection fees | 158,591 | 205,509 | 0 | 21,572 | 0 | 17.7 | 21.1 | 0.0 | 3.5 | 0.0 |
| Lease revenue | 0 | 0 | 14,080 | 21,143 | 21,106 | 0.0 | 0.0 | 2.3 | 3.5 | 3.9 |
| Sales and Use Taxes | 19,115 | 22,121 | 18,777 | 14,055 | 39,578 | 2.1 | 2.3 | 3.1 | 2.3 | 7.3 |
| Interest on prepaid surface water capital contribution | 14,827 | 15,245 | 15,643 | 16,023 | 16,386 | 1.7 | 1.6 | 2.6 | 2.6 | 3.0 |
| Interest on deposits | 1,104 | 1,440 | 2,040 | 6,247 | 11,863 | 0.1 | 0.1 | 0.3 | 1.0 | 2.2 |
| Other revenues | 8,291 | 9,468 | 7,884 | 9,180 | 9,848 | 0.9 | 1.0 | 1.3 | 1.5 | 1.8 |
| TOTAL REVENUES | 895,572 | 971,689 | 612,810 | 607,819 | 544,785 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| EXPENDITURES | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Purchased services | 438,743 | 396,714 | 336,438 | 321,661 | 288,603 | 49.1 | 40.8 | 54.9 | 52.9 | 53.0 |
| Professional fees | 142,626 | 123,017 | 170,305 | 216,060 | 134,642 | 15.9 | 12.7 | 27.8 | 35.5 | 24.7 |
| Contracted services | 28,708 | 23,861 | 24,358 | 24,491 | 23,061 | 3.2 | 2.5 | 4.0 | 4.0 | 4.2 |
| Utilities | 11,002 | 9,459 | 4,812 | 5,347 | 3,810 | 1.2 | 1.0 | 0.8 | 0.9 | 0.7 |
| Repairs and maintenance | 66,880 | 115,493 | 74,382 | 96,675 | 46,025 | 7.5 | 11.9 | 12.1 | 16.0 | 8.5 |
| Other operating expenditures | 8,424 | 4,632 | 4,337 | 2,552 | 1,902 | 0.9 | 0.5 | 0.7 | 0.4 | 0.3 |
| Administrative expenditures | 35,039 | 33,450 | 47,442 | 36,543 | 41,742 | 3.9 | 3.4 | 7.7 | 6.0 | 7.7 |
| Capital outlay | 58,055 | 205,317 | 39,549 | 21,954 | 4,317 | 6.5 | 21.1 | 6.5 | 3.6 | 0.8 |
| TOTAL EXPENDITURES | 789,477 | 911,943 | 701,623 | 725,283 | 544,102 | 88.2 | 93.9 | 114.5 | 119.3 | 99.9 |
| EXCESS REVENUES (EXPENDITURES) | \$ 106,095 | \$ 59,746 | \$ (88,813) | \$ (117,464) | \$ 683 | 11.8 % | 6.1 % | (14.5) % | (19.3) % | 0.1 % |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | 599 | 589 | 578 | 578 | 575 | | | | | |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | 593 | 583 | 569 | 572 | 571 | | | | | |

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED DECEMBER 31

| | <u>AMOUNT</u> | | | | | <u>PERCENT OF TOTAL REVENUES</u> | | | | |
|--|-------------------|---------------------|-------------------|------------------|-------------------|----------------------------------|-----------------|---------------|---------------|----------------|
| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| REVENUES | | | | | | | | | | |
| Property taxes | \$ 524,816 | \$ 492,494 | \$ 475,936 | \$ 431,337 | \$ 363,359 | 93.1 % | 98.3 % | 96.3 % | 97.1 % | 95.7 % |
| Penalty and interest | 15,450 | 5,717 | 12,649 | 6,183 | 5,613 | 2.7 | 1.1 | 2.6 | 1.4 | 1.5 |
| Accrued interest on bonds received at date of sale | 3,946 | 0 | 0 | 0 | 0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest on deposits and other | <u>19,693</u> | <u>2,752</u> | <u>5,309</u> | <u>6,888</u> | <u>10,559</u> | <u>3.5</u> | <u>0.5</u> | <u>1.1</u> | <u>1.5</u> | <u>2.8</u> |
| TOTAL REVENUES | <u>563,905</u> | <u>500,963</u> | <u>493,894</u> | <u>444,408</u> | <u>379,531</u> | <u>100.0</u> | <u>99.9</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| EXPENDITURES | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Professional fees | 7,615 | 1,898 | 3,649 | 2,697 | 1,908 | 1.4 | 0.4 | 0.7 | 0.6 | 0.5 |
| Contracted services | 17,544 | 16,069 | 16,113 | 15,677 | 16,763 | 3.1 | 3.2 | 3.3 | 3.5 | 4.4 |
| Other expenditures | 4,768 | 9,767 | 10,814 | 9,114 | 10,863 | 0.8 | 1.9 | 2.2 | 2.1 | 2.9 |
| Debt service: | | | | | | | | | | |
| Principal retirement | 210,000 | 480,000 | 210,000 | 215,000 | 215,000 | 37.3 | 95.8 | 42.5 | 48.4 | 56.7 |
| Interest and fees | <u>150,039</u> | <u>100,889</u> | <u>119,085</u> | <u>128,511</u> | <u>137,942</u> | <u>26.6</u> | <u>20.1</u> | <u>24.1</u> | <u>28.9</u> | <u>36.3</u> |
| TOTAL EXPENDITURES | <u>389,966</u> | <u>608,623</u> | <u>359,661</u> | <u>370,999</u> | <u>382,476</u> | <u>69.2</u> | <u>121.4</u> | <u>72.8</u> | <u>83.5</u> | <u>100.8</u> |
| EXCESS REVENUES (EXPENDITURES) | <u>\$ 173,939</u> | <u>\$ (107,660)</u> | <u>\$ 134,233</u> | <u>\$ 73,409</u> | <u>\$ (2,945)</u> | <u>30.8 %</u> | <u>(21.5) %</u> | <u>27.2 %</u> | <u>16.5 %</u> | <u>(0.8) %</u> |

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSOCTOBER 31, 2012

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

District Business Telephone No.: 713-942-9922

Submission date of the most recent District Registration Form: January 2, 2013

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> |
|---|--|------------------------------------|---------------------------|------------------------------|
| Wheeler BeMent c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098 | Elected 5/08/10- 5/10/14 | \$ 2,400 | \$ 22 | President |
| R. D. Sherrill c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098 | Elected 5/10/08- 11/06/12 | 2,100 | 56 | Vice President |
| W. R. Lusby c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098 | Appointed 9/08/09 11/06/12 | 2,250 | 28 | Secretary |
| Richard Erbert c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098 | Appointed 6/11/09 11/06/12 | 2,100 | 0 | Assistant Secretary |
| Billy Lowery c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098 | Elected 5/08/10- 5/10/14 | 2,250 | 56 | Director |

See accompanying independent auditors' report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)OCTOBER 31, 2012CONSULTANTS

| <u>Name and Address</u> | <u>Date Hired</u> | <u>Fees and Expense Reimbursements</u> | <u>Title at Year End</u> |
|---|-----------------------|--|----------------------------------|
| Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098 | 1/9/03 | \$ 85,876 89,086 Bonds | Attorney |
| Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 N. Loop West, Suite 600 Houston, Texas 77008 | 2/13/97 | 7,614 | Delinquent Tax Attorney |
| Myrtle Cruz, Inc. 1621 Milam, Third Floor Houston, Texas 77002 | Prior to 11/1/83 | 16,144 7,500 Bonds | 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 | Replaced 6/26/12 | 133,026 | Operator |
| Municipal Operations & Consulting, Inc. 312 Spring Hill Drive, Suite 100 Spring, Texas 77386 | 6/26/12 | 39,575 | Operator |
| A&S Engineers, Inc. 10377 Stella Link Road Houston, Texas 77025 | 6/16/99 | 76,119 | Engineer |
| Cathy Wheeler 6935 Barney Road, Suite 110 Houston, Texas 77092 | 3/9/06 | 15,439 3,000 Bonds | Tax Assessor- Collector |
| Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292 | Legislative Action | 5,445 | Central Appraisal District |
| First Southwest Company 700 Milam Street, Suite 500 Houston, Texas 77002 | 2/1/96 | 62,958 Bonds | Financial Advisor |
| Roth & Eyring, PLLC 4915 S. Main, Suite 114 Stafford, Texas 77477 | 8/14/08 | 10,500 2,450 Bonds | Independent Auditors |

See accompanying independent auditors' report.