

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 61
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
OCTOBER 31, 2013

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January 28, 2014

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each fund of Harris County Municipal Utility District No. 61, as of and for the year ended October 31, 2013, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Municipal Utility District No. 61 as of October 31, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 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 an opinion on the 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 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," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. 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.

North & Cousins, PLLC

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, 2013.

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, 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>2013</u>	<u>2012</u>	<u>Change</u>
Current and other assets	\$ 3,853,322	\$ 3,969,878	\$ (116,556)
Capital assets	5,348,229	5,106,217	242,012
Total assets	<u>9,201,551</u>	<u>9,076,095</u>	<u>125,456</u>
Long-term liabilities	7,194,304	7,157,844	36,460
Other liabilities	420,503	746,961	(326,458)
Total liabilities	<u>7,614,807</u>	<u>7,904,805</u>	<u>(289,998)</u>
Total deferred inflows of resources	<u>771,492</u>	<u>651,850</u>	<u>119,642</u>
Net position:			
Invested in capital assets, net of related debt	(2,043,136)	(2,199,198)	156,062
Restricted	2,288,084	2,162,639	125,445
Unrestricted	570,304	555,999	14,305
Total net position	<u>\$ 815,252</u>	<u>\$ 519,440</u>	<u>\$ 295,812</u>

Summary of Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 694,658	\$ 688,580	\$ 6,078
Charges for services	923,903	746,665	177,238
Other revenues	35,844	24,881	10,963
Total revenues	<u>1,654,405</u>	<u>1,460,126</u>	<u>194,279</u>
Expenses:			
Service operations	1,170,004	1,635,189	(465,185)
Debt service	188,589	409,965	(221,376)
Total expenses	<u>1,358,593</u>	<u>2,045,154</u>	<u>(686,561)</u>
Change in net position	295,812	(585,028)	880,840
Net position, beginning of year	<u>519,440</u>	<u>1,104,468</u>	<u>(585,028)</u>
Net position, end of year	<u>\$ 815,252</u>	<u>\$ 519,440</u>	<u>\$ 295,812</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, 2013, were \$2,938,123, an increase of \$98,942 from the prior year.

The General Fund balance increased by \$6,595, in accordance with the District's financial plan.

The Special Revenue Fund balance did not change.

The Debt Service Fund balance increased by \$112,351, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$20,004, as authorized expenditures exceeded interest on deposits.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. There were significant differences between the 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, 2013, was expected to be \$875,663, and the actual end of year fund balance was \$873,538.

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>2013</u>	<u>2012</u>	<u>Change</u>
Land and easements	\$ 157,558	\$ 19,659	\$ 137,899
Amenity pond	138,915	147,086	(8,171)
Construction in progress	3,041,750	2,808,181	233,569
Water facilities	847,339	893,891	(46,552)
Sewer facilities	1,162,667	1,237,400	(74,733)
Totals	<u>\$ 5,348,229</u>	<u>\$ 5,106,217</u>	<u>\$ 242,012</u>

Changes to capital assets during the fiscal year ended October 31, 2013, are summarized as follows:

Additions:

Contribution to regional wastewater treatment plant for shared facilities	\$ 4,133
Land purchase	137,899
Increase in estimated amount due to developers for construction	240,573
Franz road water line	<u>21,569</u>
Total additions to capital assets	404,174

Decreases:

Depreciation	<u>(162,162)</u>
Net change to capital assets	<u>\$ 242,012</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended October 31, 2013, are summarized as follows:

Bonded debt payable, beginning of year	\$ 4,650,000
Bonds paid	<u>(210,000)</u>
Bonded debt payable, end of year	<u>\$ 4,440,000</u>

At October 31, 2013, 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 issued \$4,005,000 in Series 2013 Unlimited Tax Bonds on November 21, 2013.

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, 2013.

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, 2013, was \$3,041,750.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$12,100,000 for the 2013 tax year (about 10%) primarily due to the addition new property to the tax base and the increase of the average assessed valuations on existing property.

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 and certain municipal fire codes banning fireworks. 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 \$1.90 as of October 31, 2013, and is expected to increase in the future. The Authority's surface water usage fee was equal to \$2.30 as of October 31, 2013, 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, 2013

	<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	\$ 385,786	\$ 27,204	\$ 569,816	\$ 1,269,033	\$ 2,251,839		\$ 2,251,839
Certificates of deposit, at cost, Note 7	200,000		200,000		400,000		400,000
Receivables:							
Property taxes	197,881		580,451		778,332		778,332
Accrued penalty and interest on property taxes					0	2,742	2,742
Service accounts	66,763				66,763		66,763
Accrued interest	81		56		137		137
Other	13,647				13,647		13,647
Due from other district, Note 9		8,290			8,290	7,112	15,402
Due from other funds		15,820	680		16,500	(16,500)	0
Prepaid surface water capital contribution, Note 10	304,973				304,973		304,973
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:							
Capital assets not being depreciated					0	3,199,308	3,199,308
Depreciable capital assets					0	2,148,921	2,148,921
Total assets	\$ 1,208,618	\$ 51,314	\$ 1,351,003	\$ 1,269,033	\$ 3,879,968	5,321,583	9,201,551
LIABILITIES							
Accounts payable	\$ 65,290	\$ 21,314	\$ 5,000		\$ 91,604		91,604
Accrued interest payable					0	59,317	59,317
Customer and builder deposits	55,409				55,409		55,409
Due to other funds	16,500				16,500	(16,500)	0
Other district equity in joint plant					0	10,000	10,000
Long-term liabilities, Note 5:							
Due within one year					0	204,173	204,173
Due in more than one year					0	7,194,304	7,194,304
Total liabilities	137,199	21,314	5,000	0	163,513	7,451,294	7,614,807
DEFERRED INFLOWS OF RESOURCES							
Property tax revenues	197,881	0	580,451	0	778,332	(6,840)	771,492
FUND BALANCES / NET POSITION							
Fund balances:							
Nonspendable:							
Prepaid surface water capital contribution, Note 10	304,973				304,973	(304,973)	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
Assigned to:							
Debt service			765,552		765,552	(765,552)	0
Capital projects				1,269,033	1,269,033	(1,269,033)	0
Unassigned	529,078				529,078	(529,078)	0
Total fund balances	873,538	30,000	765,552	1,269,033	2,938,123	(2,938,123)	0
Total liabilities, deferred inflows, and fund balances	\$ 1,208,618	\$ 51,314	\$ 1,351,003	\$ 1,269,033	\$ 3,879,968		
Net position:							
Invested in capital assets, net of related debt, Note 4						(2,043,136)	(2,043,136)
Restricted for debt service						714,078	714,078
Restricted for capital projects						1,269,033	1,269,033
Restricted for prepaid surface water capital contribution						304,973	304,973
Unrestricted						570,304	570,304
Total net position						\$ 815,252	\$ 815,252

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, 2013

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES							
Property taxes	\$ 177,261		\$ 519,964	\$	\$ 697,225	\$ (11,255)	\$ 685,970
Water service	233,526				233,526		233,526
Sewer service	142,023				142,023		142,023
Surface water fees, Note 10	227,916				227,916		227,916
From participants in plant, Note 9		449,141			449,141	(308,157)	140,984
Penalty and interest	8,505		9,335		17,840	(647)	17,193
Tap connection and inspection fees	148,365				148,365		148,365
Sales and Use Taxes, Note 11	30,900				30,900		30,900
Interest on prepaid surface water capital contribution, Note 10	14,390				14,390		14,390
Interest on deposits	1,412		2,027	1,505	4,944		4,944
Other revenues	8,194				8,194		8,194
Total revenues	992,492	449,141	531,326	1,505	1,974,464	(320,059)	1,654,405
EXPENDITURES / EXPENSES							
Service operations:							
Purchased services, Note 9	409,334				409,334	(308,157)	101,177
Professional fees	146,365	20,227	1,145		167,737		167,737
Contracted services	39,486	7,300	20,357		67,143		67,143
Utilities	11,774	64,678			76,452		76,452
Surface water pumpage fees, Note 10		306,606			306,606		306,606
Repairs and maintenance	147,847	30,094			177,941		177,941
Other operating expenditures	9,513	13,102			22,615		22,615
Administrative expenditures	52,107	7,134	1,491		60,732		60,732
Depreciation					0	162,162	162,162
Capital outlay / non-capital outlay	169,471			21,509	190,980	(163,541)	27,439
Debt service:							
Principal retirement			210,000		210,000	(210,000)	0
Interest and fees			185,982		185,982	2,607	188,589
Total expenditures / expenses	985,897	449,141	418,975	21,509	1,875,522	(516,929)	1,358,593
Excess (deficiency) of revenues over expenditures	6,595	0	112,351	(20,004)	98,942	196,870	295,812
Net change in fund balances / net position	6,595	0	112,351	(20,004)	98,942	196,870	295,812
Beginning of year	866,943	30,000	653,201	1,289,037	2,839,181	(2,319,741)	519,440
End of year	\$ 873,538	\$ 30,000	\$ 765,552	\$ 1,269,033	\$ 2,938,123	\$ (2,122,871)	\$ 815,252

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61NOTES TO THE FINANCIAL STATEMENTSOCTOBER 31, 2013

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 inflow of resources. 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		\$ 2,938,123
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets, net		5,348,229
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	\$ (4,440,000)	
Less: Issuance discount (to be amortized as interest expense)	83,273	
Due to developers	<u>(3,041,750)</u>	(7,398,477)
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	2,742	
Accrued penalty and interest on property taxes receivable	7,112	
Uncollected property taxes	<u>6,840</u>	16,694
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(59,317)</u>
Net position, end of year		<u>\$ 815,252</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	\$	98,942
<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	\$	163,541
Depreciation	<u>(162,162)</u>	1,379
<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>		
Principal reduction		210,000
<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		(5,827)
<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	(647)	
Uncollected property taxes	<u>(11,255)</u>	(11,902)
<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>3,220</u>
Change in net position	\$	<u>295,812</u>

NOTE 4: CAPITAL ASSETS

At October 31, 2013, "Invested in capital assets, net of related debt" was \$(2,043,136). 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, 2013, 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	\$ 137,899	\$	\$ 157,558
Construction in progress	<u>2,808,181</u>	<u>240,573</u>	<u>7,004</u>	<u>3,041,750</u>
Total capital assets not being depreciated	<u>2,827,840</u>	<u>378,472</u>	<u>7,004</u>	<u>3,199,308</u>
Depreciable capital assets:				
Amenity pond improvements	163,428			163,428
Water system	2,132,475	28,573		2,161,048
Sewer system	<u>2,129,340</u>	<u>4,133</u>		<u>2,133,473</u>
Total depreciable capital assets	<u>4,425,243</u>	<u>32,706</u>	<u>0</u>	<u>4,457,949</u>
Less accumulated depreciation for:				
Amenity pond improvements	(16,342)	(8,171)		(24,513)
Water system	(1,238,584)	(75,125)		(1,313,709)
Sewer system	<u>(891,940)</u>	<u>(78,866)</u>		<u>(970,806)</u>
Total accumulated depreciation	<u>(2,146,866)</u>	<u>(162,162)</u>	<u>0</u>	<u>(2,309,028)</u>
Total depreciable capital assets, net	<u>2,278,377</u>	<u>(129,456)</u>	<u>0</u>	<u>2,148,921</u>
Total capital assets, net	<u>\$ 5,106,217</u>	<u>\$ 249,016</u>	<u>\$ 7,004</u>	<u>\$ 5,348,229</u>
Changes to capital assets:				
Capital outlay		\$ 163,541	\$	
Assets transferred to depreciable assets		7,004	7,004	
Increase in liability to developer		240,633		
Less depreciation expense for the fiscal year		<u>(162,162)</u>		
Net increases / decreases to capital assets		<u>\$ 249,016</u>	<u>\$ 7,004</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

The following note does not include the Series 2013 Unlimited Tax Bonds in the amount of \$4,005,000 which were issued on November 21, 2013.

Long-term liability activity for the fiscal year ended October 31, 2013 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	\$ 4,650,000	\$	\$ 210,000	\$ 4,440,000	\$ 210,000
Less deferred amounts:					
For issuance discounts	<u>(89,100)</u>		<u>(5,827)</u>	<u>(83,273)</u>	<u>(5,827)</u>
Total bonds payable	<u>4,560,900</u>	<u>0</u>	<u>204,173</u>	<u>4,356,727</u>	<u>204,173</u>
Due to developer (See below)	<u>2,801,117</u>	<u>240,633</u>	<u>0</u>	<u>3,041,750</u>	<u>-----</u>
Total long-term liabilities	<u>\$ 7,362,017</u>	<u>\$ 240,633</u>	<u>\$ 204,173</u>	<u>\$ 7,398,477</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, 2013, was \$3,041,750. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

As of October 31, 2013, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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 - 2023	1,100,000	565,939	1,665,939
2024 - 2028	1,120,000	367,112	1,487,112
2029 - 2033	<u>1,170,000</u>	<u>147,420</u>	<u>1,317,420</u>
	<u>\$ 4,440,000</u>	<u>\$ 1,852,761</u>	<u>\$ 6,292,761</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:

Bond interest reserve, beginning of year	\$ 49,480
Appropriation for bond interest paid	<u>(49,480)</u>
Bond interest reserve, end of year	<u>\$ 0</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The bond issues payable at October 31, 2013, were as follows:

	<u>Series 2000</u>	<u>Series 2003</u>	<u>Series 2012</u>
Amounts outstanding, October 31, 2013	\$700,000	\$770,000	\$2,970,000
Interest rates	5.05% to 5.30%	3.90% to 4.50%	2.50% to 4.20%
Maturity dates, serially beginning/ending	March 1, 2014/2018	September 1, 2014/2024	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, 2013*	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 22, 2013, the District levied the following ad valorem taxes for the 2013 tax year and the 2014 fiscal year on the adjusted taxable valuation of \$132,250,840:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.4400	\$ 575,350
Maintenance	<u>0.1500</u>	<u>196,142</u>
	<u>\$ 0.5900</u>	<u>\$ 771,492</u>

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

2013 tax year total property tax levy	\$ 771,492
2013 tax year total property tax levy deferred to 2014 fiscal year	(771,492)
2012 tax year total property tax levy deferred to 2013 fiscal year	651,851
Appraisal district adjustments to prior year taxes	<u>34,119</u>
Statement of Activities property tax revenues	<u>\$ 685,970</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 \$2,651,839 and the bank balance was \$2,591,338. Of the bank balance, \$715,671 was covered by federal insurance and \$1,875,667 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	\$	569,816
Temporary investments		<u>200,000</u>
	\$	<u><u>769,816</u></u>

Capital Projects Fund

For construction of capital assets:

Cash	\$	<u><u>1,269,033</u></u>
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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, 2013, the District had physical damage and boiler and machinery coverage of \$4,455,900, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 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 21, 2013, 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 -- 15.34%; Harris County Municipal Utility District No. 62 -- 16.87%; Harris County Municipal Utility District No. 63 -- 4.84%; 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. -- 3.65%. 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, 2013, the District's share of the Authority's general and capital outlay expenditures was \$101,177 and \$4,133, respectively. The District's share of the Authority's operating reserve was \$10,000 at October 31, 2013.

The following summary financial data of the Authority's General Fund is presented for the Authority's fiscal year ended October 31, 2013:

	<u>Authority Total</u>	<u>District's Share</u>
Total assets	\$ 169,691	
Total liabilities	<u>(169,691)</u>	
Total fund balance	0	\$ 10,000
Operating reserve	<u>(70,000)</u>	<u>(10,000)</u>
Undesignated fund balance	<u>\$ (70,000)</u>	<u>\$ 0</u>
Total revenues	\$ 816,931	\$ 105,310
Total expenditures	<u>(816,931)</u>	<u>(105,310)</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, 2013, the District's share of the operating cost of the Facilities was \$308,157. 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 districts 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, 2013, were \$306,606. The District billed its customers \$227,916 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, 2013, the District received credits of \$24,048 under the provisions of the Contract. \$9,658 of this amount was recorded as principal and \$14,390 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
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	12,173	11,875	24,048
2019-2023	70,083	50,157	120,240
2024-2028	88,337	31,903	120,240
2029-2033	90,953	9,247	100,200
	<u>\$ 304,973</u>	<u>\$ 155,947</u>	<u>\$ 460,920</u>

NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT

Effective April 11, 2003 (amended effective December 14, 2013), 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 imposition of the City's Sales and Use Tax and certain municipal fire codes banning fireworks. No other City services are provided. 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 \$30,900 from the City for the fiscal year ended October 31, 2013.

NOTE 12: GROUNDWATER BANK CERTIFICATES

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the "HGSD"). 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 disincentive fee assessed by the HGSD for ground water pumpage in excess of the District's permit as amended. At October 31, 2013, 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, 2013.

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 178,000	\$ 178,000	\$ 177,261	\$ (739)
Water service	170,000	170,000	233,526	63,526
	120,000	120,000	142,023	22,023
Surface water fees	179,300	179,300	227,916	48,616
Penalty	0	0	8,505	8,505
Tap connection and inspection fees	0	0	148,365	148,365
Sales and Use Taxes	20,000	20,000	30,900	10,900
Interest on prepaid surface water capital cont.	0	0	14,390	14,390
Interest on deposits	850	850	1,412	562
Other revenues	0	0	8,194	8,194
TOTAL REVENUES	668,150	668,150	992,492	324,342
EXPENDITURES				
Service operations:				
Purchased services	322,530	322,530	409,334	86,804
Professional fees	133,000	133,000	146,365	13,365
Contracted services	26,000	26,000	39,486	13,486
Utilities	5,500	5,500	11,774	6,274
Repairs and maintenance	126,500	126,500	147,847	21,347
Other operating expenditures	5,800	5,800	9,513	3,713
Administrative expenditures	35,100	35,100	52,107	17,007
Capital outlay	5,000	5,000	169,471	164,471
TOTAL EXPENDITURES	659,430	659,430	985,897	326,467
EXCESS REVENUES (EXPENSES)	8,720	8,720	6,595	(2,125)
FUND BALANCE, BEGINNING OF YEAR	866,943	866,943	866,943	0
FUND BALANCE, END OF YEAR	\$ 875,663	\$ 875,663	\$ 873,538	\$ (2,125)

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, 2013

	<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	\$ 240,030	\$ 240,030	\$ 308,157	\$ 68,127
Harris County Municipal Utility District No. 62	102,870	102,870	140,984	38,114
Interest on deposits	0	0	0	0
TOTAL REVENUES	<u>342,900</u>	<u>342,900</u>	<u>449,141</u>	<u>106,241</u>
EXPENDITURES				
Service operations:				
Professional fees	20,000	20,000	20,227	227
Contracted services	11,600	11,600	7,300	(4,300)
Utilities	56,000	56,000	64,678	8,678
Surface water pumpage fees	205,000	205,000	306,606	101,606
Repairs and maintenance	30,000	30,000	30,094	94
Other operating expenditures	12,000	12,000	13,102	1,102
Administrative expenditures	8,300	8,300	7,134	(1,166)
TOTAL EXPENDITURES	<u>342,900</u>	<u>342,900</u>	<u>449,141</u>	<u>106,241</u>
EXCESS REVENUES (EXPENSES)	0	0	0	0
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, 2013

(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 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, 2013

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: \$2.09 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: \$20.90

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

SCHEDULE OF SERVICES AND RATES (Continued)

OCTOBER 31, 2013

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"	575	573	1	573
1"	4	4	2.5	10
1-1/2"	3	3	5	15
2"	22	22	8	176
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>606</u>	<u>604</u>		<u>934</u>
Total Wastewater	<u>597</u>	<u>595</u>	1	<u>595</u>

*Single family equivalents

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

Gallons pumped into system (unaudited):	<u>167,373</u>
Gallons billed to No. 61 customers (unaudited):	<u>114,198</u>
Gallons billed to No. 62 customers (unaudited):	<u>52,150</u>
Total gallons billed to customers (unaudited):	<u>166,348</u>

Water Accountability Ratio
(Gallons billed/ gallons pumped): 99%

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

Does the District have Debt Service standby fees? Yes No

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

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

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

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

EXPENDITURES

FOR THE YEAR ENDED OCTOBER 31, 2013

	<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	\$ 308,157	\$	\$	\$	\$ 308,157
Sewer	101,177				101,177
	<u>409,334</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>409,334</u>
Professional fees:					
Auditing	9,500	1,000			10,500
Legal	80,429	266	1,145		81,840
Engineering	56,436	18,961			75,397
	<u>146,365</u>	<u>20,227</u>	<u>1,145</u>	<u>0</u>	<u>167,737</u>
Contracted services:					
Bookkeeping	10,613	3,700			14,313
Operation and billing	28,873	3,600			32,473
Tax assessor-collector			14,784		14,784
Central appraisal district			5,573		5,573
	<u>39,486</u>	<u>7,300</u>	<u>20,357</u>	<u>0</u>	<u>67,143</u>
Utilities	<u>11,774</u>	<u>64,678</u>	<u>0</u>	<u>0</u>	<u>76,452</u>
Surface water pumpage fees	<u>0</u>	<u>306,606</u>	<u>0</u>	<u>0</u>	<u>306,606</u>
Repairs and maintenance	<u>147,847</u>	<u>30,094</u>	<u>0</u>	<u>0</u>	<u>177,941</u>
Other operating expenditures:					
Chemicals		13,102			13,102
Laboratory costs	6,995				6,995
TCEQ assessment	1,783				1,783
Other	735				735
	<u>9,513</u>	<u>13,102</u>	<u>0</u>	<u>0</u>	<u>22,615</u>
Administrative expenditures:					
Director's fees	12,300				12,300
Office supplies and postage	26,493	484			26,977
Insurance	4,826	6,650	50		11,526
Other	8,488		1,441		9,929
	<u>52,107</u>	<u>7,134</u>	<u>1,491</u>	<u>0</u>	<u>60,732</u>
CAPITAL OUTLAY					
Authorized expenditures	142,032			21,509	163,541
Tap connection fees	27,439				27,439
	<u>169,471</u>	<u>0</u>	<u>0</u>	<u>21,509</u>	<u>190,980</u>
DEBT SERVICE					
Principal retirement	<u>0</u>	<u>0</u>	<u>210,000</u>	<u>0</u>	<u>210,000</u>
Interest and fees:					
Interest			184,110		184,110
Paying agent fees			1,872		1,872
	<u>0</u>	<u>0</u>	<u>185,982</u>	<u>0</u>	<u>185,982</u>
TOTAL EXPENDITURES	<u>\$ 985,897</u>	<u>\$ 449,141</u>	<u>\$ 418,975</u>	<u>\$ 21,509</u>	<u>\$ 1,875,522</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61ANALYSIS OF CHANGES IN DEPOSITS
ALL GOVERNMENTAL FUND TYPESFOR THE YEAR ENDED OCTOBER 31, 2013

	<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	\$ 787,194	\$ 462,511	\$ 530,716	\$ 1,505	\$ 1,781,926
Maintenance tax collections			176,952		176,952
Maintenance tax transfers	183,118				183,118
Collection of receivable	14,636		7,441		22,077
Principal repayment from surface water capital contribution	10,115				10,115
Overpayments from taxpayers			956		956
TOTAL DEPOSITS PROVIDED	<u>995,063</u>	<u>462,511</u>	<u>716,065</u>	<u>1,505</u>	<u>2,175,144</u>
APPLICATIONS OF DEPOSITS					
Cash disbursements for:					
Current expenditures	809,025		20,999	250	830,274
Capital outlay	169,471	470,377		348,865	988,713
Debt service			395,982		395,982
Maintenance tax transfers			183,118		183,118
Decrease in customer and builder deposits	2,526				2,526
Refund of taxpayer overpayments			470		470
TOTAL DEPOSITS APPLIED	<u>981,022</u>	<u>470,377</u>	<u>600,569</u>	<u>349,115</u>	<u>2,401,083</u>
INCREASE (DECREASE) IN DEPOSITS	14,041	(7,866)	115,496	(347,610)	(225,939)
DEPOSITS BALANCES, BEGINNING OF YEAR	<u>571,775</u>	<u>35,070</u>	<u>654,320</u>	<u>1,616,643</u>	<u>2,877,808</u>
DEPOSITS BALANCES, END OF YEAR	<u>\$ 585,786</u>	<u>\$ 27,204</u>	<u>\$ 769,816</u>	<u>\$ 1,269,033</u>	<u>\$ 2,651,839</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61SCHEDULE OF CERTIFICATES OF DEPOSITOCTOBER 31, 2013

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificate of Deposit				
No. 207837	0.39%	1/23/14	\$ <u>200,000</u>	\$ <u>81</u>
DEBT SERVICE FUND				
Certificate of Deposit				
No. 530783	0.15%	2/19/14	\$ <u>200,000</u>	\$ <u>56</u>
Total – All Funds			\$ <u>400,000</u>	\$ <u>137</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED OCTOBER 31, 2013

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 170,017	\$ 498,715
Additions and corrections to prior year taxes	<u>8,674</u>	<u>25,445</u>
Adjusted receivable, beginning of year	178,691	524,160
2013 ADJUSTED TAX ROLL	<u>196,142</u>	<u>575,350</u>
Total to be accounted for	374,833	1,099,510
Tax collections: Current tax year	0	0
Prior tax years	<u>(176,952)</u>	<u>(519,059)</u>
RECEIVABLE, END OF YEAR	<u>\$ 197,881</u>	<u>\$ 580,451</u>
RECEIVABLE, BY YEARS		
2007	\$ 84	\$ 246
2008	186	546
2009	275	807
2010	337	988
2011	332	974
2012	525	1,540
2013	<u>196,142</u>	<u>575,350</u>
RECEIVABLE, END OF YEAR	<u>\$ 197,881</u>	<u>\$ 580,451</u>

Fiscal year 2013 General Fund property tax revenue of \$177,261 under the modified accrual basis of accounting is comprised of prior tax year collections of \$176,952 during fiscal year 2013 and 2012 tax year collections of \$309 during fiscal year 2012.

Fiscal year 2013 Debt Service Fund property tax revenue of \$519,964 under the modified accrual basis of accounting is comprised of prior tax year collections of \$519,059 during fiscal year 2013 and 2012 tax year collections of \$905 during fiscal year 2012.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61TAXES LEVIED AND RECEIVABLE (Continued)FOR THE YEAR ENDED OCTOBER 31, 2013

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2013**</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 51,262,825	\$ 47,343,915	\$ 44,525,265	\$ 43,802,358
Improvements	96,044,757	89,842,939	82,329,678	83,907,497
Personal property	5,428,979	4,515,672	4,365,816	4,387,684
Less exemptions	<u>(20,485,721)</u>	<u>(21,557,733)</u>	<u>(21,678,647)</u>	<u>(22,682,308)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 132,250,840</u>	<u>\$ 120,144,793</u>	<u>\$ 109,542,112</u>	<u>\$ 109,415,231</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>\$ 771,492</u>	<u>\$ 708,851</u>	<u>\$ 646,295</u>	<u>\$ 645,547</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>0.0%**</u>	<u>99.7%*</u>	<u>99.8%</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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
OCTOBER 31, 2013

Series 2000			
<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>
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	140,000	3,710	143,710
TOTALS	\$ 700,000	\$ 91,560	\$ 791,560

Series 2003			
<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>
2014	\$ 70,000	\$ 32,410	\$ 102,410
2015	70,000	29,680	99,680
2016	70,000	26,880	96,880
2017	70,000	24,080	94,080
2018	70,000	21,280	91,280
2019	70,000	18,340	88,340
2020	70,000	15,400	85,400
2021	70,000	12,425	82,425
2022	70,000	9,450	79,450
2023	70,000	6,300	76,300
2024	70,000	3,150	73,150
TOTALS	\$ 770,000	\$ 199,395	\$ 969,395

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2013

<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>
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>\$ 1,561,806</u>	<u>\$ 4,531,806</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

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

OCTOBER 31, 2013

<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>
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>\$ 4,440,000</u>	<u>\$ 1,852,761</u>	<u>\$ 6,292,761</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED OCTOBER 31, 2013

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Totals</u>
Bond Series:	2000	2003	2012	
Interest Rate:	5.05% to 5.30%	3.90% 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, 2014/2018	September 1, 2014/2024	September 1, 2019/2033	
Bonds Outstanding at Beginning of Current Year	\$ 840,000	\$ 840,000	\$ 2,970,000	\$ 4,650,000
Less Retirements	<u>(140,000)</u>	<u>(70,000)</u>	<u> </u>	<u>(210,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 700,000</u>	<u>\$ 770,000</u>	<u>\$ 2,970,000</u>	<u>\$ 4,440,000</u>
Current Year Interest Paid	<u>\$ 39,760</u>	<u>\$ 35,070</u>	<u>\$ 109,280</u>	<u>\$ 184,110</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, 2013: \$765,552
Average annual debt service payment for remaining term of all debt: 314,638

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED DECEMBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
REVENUES										
Property taxes	\$ 177,261	\$ 178,915	\$ 167,896	\$ 162,230	\$ 147,047	17.9 %	20.0 %	17.3 %	26.5 %	24.3 %
Water service	233,526	195,178	210,657	164,183	171,626	23.6	21.8	21.7	26.8	28.3
Sewer service	142,023	128,108	116,826	118,418	98,700	14.3	14.3	12.0	19.3	16.2
Surface water fees	227,916	183,613	203,883	103,250	95,412	23.0	20.5	21.0	16.8	15.7
Penalty	8,505	7,830	18,644	6,305	6,814	0.9	0.9	1.9	1.0	1.1
Tap connection and inspection fees	148,365	158,591	205,509	0	21,572	14.9	17.7	21.1	0.0	3.5
Lease revenue	0	0	0	14,080	21,143	0.0	0.0	0.0	2.3	3.5
Sales and Use Taxes	30,900	19,115	22,121	18,777	14,055	3.1	2.1	2.3	3.1	2.3
Interest on prepaid surface water capital contribution	14,390	14,827	15,245	15,643	16,023	1.4	1.7	1.6	2.6	2.6
Interest on deposits	1,412	1,104	1,440	2,040	6,247	0.1	0.1	0.1	0.3	1.0
Other revenues	8,194	8,291	9,468	7,884	9,180	0.8	0.9	1.0	1.3	1.5
TOTAL REVENUES	992,492	895,572	971,689	612,810	607,819	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased services	409,334	438,743	396,714	336,438	321,661	41.1	49.1	40.8	54.9	52.9
Professional fees	146,365	142,626	123,017	170,305	216,060	14.7	15.9	12.7	27.8	35.5
Contracted services	39,486	28,708	23,861	24,358	24,491	4.0	3.2	2.5	4.0	4.0
Utilities	11,774	11,002	9,459	4,812	5,347	1.2	1.2	1.0	0.8	0.9
Repairs and maintenance	147,847	66,880	115,493	74,382	96,675	14.9	7.5	11.9	12.1	16.0
Other operating expenditures	9,513	8,424	4,632	4,337	2,552	1.0	0.9	0.5	0.7	0.4
Administrative expenditures	52,107	35,039	33,450	47,442	36,543	5.3	3.9	3.4	7.7	6.0
Capital outlay	169,471	58,055	205,317	39,549	21,954	17.1	6.5	21.1	6.5	3.6
TOTAL EXPENDITURES	985,897	789,477	911,943	701,623	725,283	99.3	88.2	93.9	114.5	119.3
EXCESS REVENUES (EXPENDITURES)	\$ 6,595	\$ 106,095	\$ 59,746	\$ (88,813)	\$ (117,464)	0.7 %	11.8 %	6.1 %	(14.5) %	(19.3) %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	604	599	589	578	578					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	595	593	583	569	572					

See accompanying independent auditor's report.

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

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
REVENUES										
Property taxes	\$ 519,964	\$ 524,816	\$ 492,494	\$ 475,936	\$ 431,337	97.8 %	93.1 %	98.3 %	96.3 %	97.1 %
Penalty and interest	9,335	15,450	5,717	12,649	6,183	1.8	2.7	1.1	2.6	1.4
Accrued interest on bonds received at date of sale	0	3,946	0	0	0	0.0	0.7	0.0	0.0	0.0
Interest on deposits and other	2,027	19,693	2,752	5,309	6,888	0.4	3.5	0.5	1.1	1.5
TOTAL REVENUES	531,326	563,905	500,963	493,894	444,408	100.0	100.0	99.9	100.0	100.0
EXPENDITURES										
Current:										
Professional fees	1,145	7,615	1,898	3,649	2,697	0.2	1.4	0.4	0.7	0.6
Contracted services	20,357	17,544	16,069	16,113	15,677	3.8	3.1	3.2	3.3	3.5
Other expenditures	1,491	4,768	9,767	10,814	9,114	0.3	0.8	1.9	2.2	2.1
Debt service:										
Principal retirement	210,000	210,000	480,000	210,000	215,000	39.6	37.3	95.8	42.5	48.4
Interest and fees	185,982	150,039	100,889	119,085	128,511	35.0	26.6	20.1	24.1	28.9
TOTAL EXPENDITURES	418,975	389,966	608,623	359,661	370,999	78.9	69.2	121.4	72.8	83.5
EXCESS REVENUES (EXPENDITURES)	\$ 112,351	\$ 173,939	\$ (107,660)	\$ 134,233	\$ 73,409	21.1 %	30.8 %	(21.5) %	27.2 %	16.5 %

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSOCTOBER 31, 2013

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	\$ 2,550	\$ 85	President
R. D. Sherrill c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 11/06/12 11/08/16	1,950	0	Vice President
W. R. Lusby c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 11/06/12 11/08/16	2,250	0	Secretary
Walter B. Smith c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 11/06/12 11/08/16	3,150	1,666	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	40	Director

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)OCTOBER 31, 2013CONSULTANTS

<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	\$ 82,411	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 N. Loop West, Suite 600 Houston, Texas 77008	2/13/97	1,145	Delinquent Tax Attorney
Myrtle Cruz, Inc. 1621 Milam, Third Floor Houston, Texas 77002	Prior to 11/1/83	16,360	Bookkeeper
Beulah Kelly 1621 Milam, Third Floor Houston, Texas 77002	3/9/00	0	Investment Officer
Municipal Operations & Consulting, Inc. 312 Spring Hill Drive, Suite 100 Spring, Texas 77386	6/26/12	222,135	Operator
A&S Engineers, Inc. 10377 Stella Link Road Houston, Texas 77025	6/16/99	81,905	Engineer
Cathy Wheeler 6935 Barney Road, Suite 110 Houston, Texas 77092	3/9/06	14,784	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	5,573	Central Appraisal District
First Southwest Company 700 Milam Street, Suite 500 Houston, Texas 77002	2/1/96	0	Financial Advisor
Roth & Eyring, PLLC 4915 S. Main, Suite 114 Stafford, Texas 77477	8/14/08	10,500	Independent Auditor

See accompanying independent auditor's report.