

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 61
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
OCTOBER 31, 2015

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January 26, 2016

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, 2015, 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, 2015, 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 24 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund, on Page 25 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 26 to 44 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.

Wolfe & Co., 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, 2015.

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>2015</u>	<u>2014</u>	<u>Change</u>
Current and other assets	\$ 9,166,688	\$ 5,098,563	\$ 4,068,125
Capital assets	6,153,146	6,006,437	146,709
Total assets	<u>15,319,834</u>	<u>11,105,000</u>	<u>4,214,834</u>
Long-term liabilities	12,301,902	9,256,956	3,044,946
Other liabilities	1,413,241	657,528	755,713
Total liabilities	<u>13,715,143</u>	<u>9,914,484</u>	<u>3,800,659</u>
Total deferred inflows of resources	<u>1,211,747</u>	<u>1,075,994</u>	<u>135,753</u>
Net position:			
Invested in capital assets, net of related debt	(6,518,816)	(3,616,460)	(2,902,356)
Restricted	6,012,015	3,137,127	2,874,888
Unrestricted	899,745	593,855	305,890
Total net position	<u>\$ 392,944</u>	<u>\$ 114,522</u>	<u>\$ 278,422</u>

Summary of Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 1,128,240	\$ 824,636	\$ 303,604
Charges for services	951,136	880,002	71,134
Other revenues	74,516	71,595	2,921
Total revenues	<u>2,153,892</u>	<u>1,776,233</u>	<u>377,659</u>
Expenses:			
Service operations	1,222,614	1,868,686	(646,072)
Debt service	652,856	608,277	44,579
Total expenses	<u>1,875,470</u>	<u>2,476,963</u>	<u>(601,493)</u>
Change in net position	278,422	(700,730)	979,152
Net position, beginning of year	<u>114,522</u>	<u>815,252</u>	<u>(700,730)</u>
Net position, end of year	<u>\$ 392,944</u>	<u>\$ 114,522</u>	<u>\$ 278,422</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, 2015, were \$7,107,948, an increase of \$3,249,664 from the prior year.

The General Fund balance increased by \$293,719, in accordance with the District's financial plan.

The Special Revenue Fund balance did not change.

The Debt Service Fund balance increased by \$154,828, in accordance with the District's financial plan.

The Capital Projects Fund balance increased by \$2,804,617, as interest earnings and the proceeds from the sale of the Series 2015 bonds exceeded authorized expenditures.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of budgeted to actual amounts is presented on Page 24 of this report. The budgetary fund balance as of October 31, 2015, was expected to be \$912,865, and the actual end of year fund balance was \$1,180,805.

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>2015</u>	<u>2014</u>	<u>Change</u>
Land and easements	\$ 519,503	\$ 298,098	\$ 221,405
Detention ponds	1,106,848	1,106,848	0
Construction in progress	1,610,368	1,789,058	(178,690)
Amenity pond improvements	122,573	130,744	(8,171)
Water facilities	1,597,412	1,414,488	182,924
Sewer facilities	1,196,442	1,267,201	(70,759)
Totals	<u>\$ 6,153,146</u>	<u>\$ 6,006,437</u>	<u>\$ 146,709</u>

Changes to capital assets during the fiscal year ended October 31, 2015, are summarized as follows:

Additions:

Contribution to regional wastewater treatment plant for shared facilities	\$ 11,202
Bucktrout drainage outfall	193,015
Water plant ground storage tank replacement	<u>280,419</u>
Total additions to capital assets	484,636

Decreases:

Decrease in estimated cost of developer construction	(150,300)
Depreciation	<u>(187,627)</u>

Net change to capital assets	<u>\$ 146,709</u>
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Debt

Changes in the bonded debt position of the District during the fiscal year ended October 31, 2015, are summarized as follows:

Bonded debt payable, beginning of year	\$ 8,060,000
Series 2015 bonds sold	3,945,000
Bonds paid	<u>(385,000)</u>
Bonded debt payable, end of year	<u>\$ 11,620,000</u>

At October 31, 2015, the District had \$24,080,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of A3 by Moody's Investors Service (Moody's). The Series 2000 bonds are insured by American Municipal Bond Assurance Corporation (Ambac), the Series 2003 bonds are insured by National Public Finance Guarantee Corp. (formerly Financial Guaranty Insurance Company (FGIC)), and the Series 2013 and 2015 bonds are insured by Assured Guaranty Municipal Corp. The Series 2012 bonds are not insured. The insured rating of the Series 2013 and 2015 bonds is A2 by Moody's. The insured rating of the Series 2015 bonds is AA by Standard & Poor's and AA+ by Kroll Bond Rating Agency. There were changes in the ratings of the District's bonds during the fiscal year ended October 31, 2015. The underlying rating was raised from Baa1 to A3 by Moody's.

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, 2015, was \$1,355,850.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$46,800,000 for the 2015 tax year (about 24%) 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 the Second Amended and Restated Strategic Partnership Agreement ("SPA") effective as of June 5, 2015, which superseded and replaced the SPA dated April 11, 2003, as 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 term of the SPA is 19 years from the date of the Second Amended and Restated SPA. 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 SPA at the time of the limited-purpose annexation of the Partial District. The SPA provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the SPA 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 ground water pumpage fee was equal to \$2.05 as of October 31, 2015, and is expected to increase in the future. The Authority's surface water usage fee was equal to \$2.45 as of October 31, 2015, 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 funds 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, 2015

	<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	\$ 757,937	\$ 5,184	\$ 113,783	\$ 5,322,310	\$ 6,199,214	\$	\$ 6,199,214
Certificates of deposit, at cost, Note 7	400,499		800,000		1,200,499		1,200,499
Receivables:							
Property taxes	366,728		857,448		1,224,176		1,224,176
Accrued penalty and interest on property taxes					0	2,433	2,433
Service accounts	73,356				73,356		73,356
Accrued interest	338		1,850		2,188		2,188
Sales and Use Taxes, Note 11	16,827				16,827		16,827
Other	7,741			467	8,208		8,208
Due from other district, Note 9		128,924			128,924	7,112	136,036
Due from other funds	11,939	279,273	4,025	3,751	298,988	(298,988)	0
Prepaid surface water capital contribution, Note 10	284,264				284,264		284,264
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	3,236,719	3,236,719
Depreciable capital assets					0	2,916,427	2,916,427
Total assets	\$ 1,959,116	\$ 413,381	\$ 1,777,106	\$ 5,326,528	\$ 9,476,131	5,843,703	15,319,834
LIABILITIES							
Accounts payable	\$ 58,665	\$ 114,081	\$ 4,525		\$ 177,271		177,271
Construction contracts payable		269,300		332,579	601,879		601,879
Accrued interest payable					0	141,768	141,768
Customer and builder deposits	65,869				65,869		65,869
Due to other funds	287,049			11,939	298,988	(298,988)	0
Other district equity in joint plant					0	10,000	10,000
Long-term liabilities, Note 5:							
Due within one year					0	416,454	416,454
Due in more than one year					0	12,301,902	12,301,902
Total liabilities	411,583	383,381	4,525	344,518	1,144,007	12,571,136	13,715,143
DEFERRED INFLOWS OF RESOURCES							
Property tax revenues	366,728	0	857,448	0	1,224,176	(12,429)	1,211,747
FUND BALANCES / NET POSITION							
Fund balances:							
Nonspendable:							
Prepaid surface water capital contribution, Note 10	284,264				284,264	(284,264)	0
Operating reserve at joint plants, Note 9	30,000				30,000	(30,000)	0
Reserved for groundwater bank certificates, Note 12	9,487				9,487	(9,487)	0
Restricted for:							
Operating reserve, Note 9		30,000			30,000	(30,000)	0
Bond interest, Note 5			39,282		39,282	(39,282)	0
Assigned to:							
Debt service			875,851		875,851	(875,851)	0
Capital projects				4,982,010	4,982,010	(4,982,010)	0
Unassigned	857,054				857,054	(857,054)	0
Total fund balances	1,180,805	30,000	915,133	4,982,010	7,107,948	(7,107,948)	0
Total liabilities, deferred inflows, and fund balances	\$ 1,959,116	\$ 413,381	\$ 1,777,106	\$ 5,326,528	\$ 9,476,131		
Net position:							
Invested in capital assets, net of related debt, Note 4						(6,518,816)	(6,518,816)
Restricted for debt service						745,741	745,741
Restricted for capital projects						4,982,010	4,982,010
Restricted for prepaid surface water capital contribution						284,264	284,264
Unrestricted						899,745	899,745
Total net position						\$ 392,944	\$ 392,944

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, 2015

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES							
Property taxes	\$ 293,056		\$ 820,688		\$ 1,113,744	\$ 6,031	\$ 1,119,775
Water service	230,321				230,321		230,321
Sewer service	153,356				153,356		153,356
Surface water fees, Note 10	196,469				196,469		196,469
From participants in plant, Note 9		810,063			810,063	(537,999)	272,064
Penalty and interest	7,890		7,478		15,368	987	16,355
Tap connection and inspection fees	65,720				65,720		65,720
Sales and Use Taxes, Note 11	65,978				65,978		65,978
Interest on prepaid surface water capital contribution, Note 10	13,454				13,454		13,454
Interest on deposits	1,959	47	3,029	3,503	8,538		8,538
Accrued interest on bonds received at date of sale			5,612		5,612	(5,612)	0
Other revenues	11,862				11,862		11,862
Total revenues	1,040,065	810,110	836,807	3,503	2,690,485	(536,593)	2,153,892
EXPENDITURES / EXPENSES							
Service operations:							
Purchased services, Note 9	329,900				329,900	(240,478)	89,422
Professional fees	115,429	11,215	2,229		128,873		128,873
Contracted services	40,141	8,700	24,297		73,138		73,138
Utilities	8,055	44,544			52,599		52,599
Surface water pumpage fees, Note 10		279,501			279,501	(18,036)	261,465
Repairs and maintenance	138,847	33,845			172,692		172,692
Other operating expenditures	11,859	4,911			16,770		16,770
Administrative expenditures	68,413	8,168	1,206		77,787		77,787
Depreciation					0	187,627	187,627
Capital outlay / non-capital outlay	33,702	419,226		694,839	1,147,767	(985,526)	162,241
Debt service:							
Principal retirement			385,000		385,000	(385,000)	0
Bond issuance expenditures				269,811	269,811		269,811
Interest and fees			336,588		336,588	46,457	383,045
Total expenditures / expenses	746,346	810,110	749,320	964,650	3,270,426	(1,394,956)	1,875,470
Excess (deficiency) of revenues over expenditures	293,719	0	87,487	(961,147)	(579,941)	858,363	278,422
OTHER FINANCING SOURCES (USES)							
Bonds issued, Note 5			179,236	3,765,764	3,945,000	(3,945,000)	0
Bond issuance discount, Note 5			(111,895)		(111,895)	111,895	0
Total other financing sources (uses)	0	0	67,341	3,765,764	3,833,105	(3,833,105)	0
Net change in fund balances / net assets	293,719	0	154,828	2,804,617	3,253,164	(2,974,742)	278,422
Beginning of year	887,086	30,000	760,305	2,177,393	3,854,784	(3,740,262)	114,522
End of year	\$ 1,180,805	\$ 30,000	\$ 915,133	\$ 4,982,010	\$ 7,107,948	\$ (6,715,004)	\$ 392,944

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61NOTES TO THE FINANCIAL STATEMENTSOCTOBER 31, 2015

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 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		\$ 7,107,948
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets, net		6,153,146
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	\$ (11,620,000)	
Less: Issuance discount (to be amortized as interest expense)	257,494	
Due to developers	<u>(1,355,850)</u>	(12,718,356)
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	2,433	
Accrued penalty and interest on property taxes receivable	7,112	
Uncollected property taxes	<u>12,429</u>	21,974
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(141,768)</u>
Net position, end of year		<u>\$ 392,944</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		\$ 3,253,164
<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	\$ 706,041	
Depreciation	<u>(187,627)</u>	518,414
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Bonds issued	(3,945,000)	
Principal reduction	<u>385,000</u>	(3,560,000)
<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		99,948
<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	987	
Uncollected property taxes	<u>6,031</u>	7,018
<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>(40,122)</u>
Change in net position		<u>\$ 278,422</u>

NOTE 4: CAPITAL ASSETS

At October 31, 2015, "Invested in capital assets, net of related debt" was \$(6,518,816). 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, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 298,098	\$ 221,405	\$	\$ 519,503
Detention ponds	1,106,848			1,106,848
Construction in progress	<u>1,789,058</u>	<u>193,015</u>	<u>371,705</u>	<u>1,610,368</u>
Total capital assets not being depreciated	<u>3,194,004</u>	<u>414,420</u>	<u>371,705</u>	<u>3,236,719</u>
Depreciable capital assets:				
Amenity pond improvements	163,428			163,428
Water system	2,818,682	280,419		3,099,101
Sewer system	<u>2,321,867</u>	<u>11,202</u>		<u>2,333,069</u>
Total depreciable capital assets	<u>5,303,977</u>	<u>291,621</u>	<u>0</u>	<u>5,595,598</u>
Less accumulated depreciation for:				
Amenity pond improvements	(32,684)	(8,171)		(40,855)
Water system	(1,404,194)	(97,495)		(1,501,689)
Sewer system	<u>(1,054,666)</u>	<u>(81,961)</u>		<u>(1,136,627)</u>
Total accumulated depreciation	<u>(2,491,544)</u>	<u>(187,627)</u>	<u>0</u>	<u>(2,679,171)</u>
Total depreciable capital assets, net	<u>2,812,433</u>	<u>103,994</u>	<u>0</u>	<u>2,916,427</u>
Total capital assets, net	<u>\$ 6,006,437</u>	<u>\$ 518,414</u>	<u>\$ 371,705</u>	<u>\$ 6,153,146</u>
Changes to capital assets:				
Capital outlay		\$ 484,636	\$	
Decrease in estimated cost of developer construction			150,300	
Assets transferred to non depreciable assets		221,405	221,405	
Less depreciation expense for the fiscal year		<u>(187,627)</u>		
Net increases / decreases to capital assets		<u>\$ 518,414</u>	<u>\$ 371,705</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended October 31, 2015 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	\$ 8,060,000	\$ 3,945,000	\$ 385,000	\$ 11,620,000	\$ 435,000
Less deferred amounts:					
For issuance discounts	<u>(157,546)</u>	<u>(111,895)</u>	<u>(11,947)</u>	<u>(257,494)</u>	<u>(18,546)</u>
Total bonds payable	<u>7,902,454</u>	<u>3,833,105</u>	<u>373,053</u>	<u>11,362,506</u>	<u>416,454</u>
Due to developer (See below)	<u>1,727,555</u>	<u>0</u>	<u>371,705</u>	<u>1,355,850</u>	-----
Total long-term liabilities	<u>\$ 9,630,009</u>	<u>\$ 3,833,105</u>	<u>\$ 744,758</u>	<u>\$ 12,718,356</u>	<u>\$ 416,454</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, 2015, was \$1,355,850. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

As of October 31, 2015, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 435,000	\$ 421,663	\$ 856,663
2017	435,000	405,674	840,674
2018	445,000	389,614	834,614
2019	465,000	376,790	841,790
2020	475,000	363,622	838,622
2021 - 2025	2,530,000	1,587,257	4,117,257
2026 - 2030	2,800,000	1,129,204	3,929,204
2031 - 2035	2,565,000	575,196	3,140,196
2036 - 2039	<u>1,470,000</u>	<u>136,314</u>	<u>1,606,314</u>
	<u>\$ 11,620,000</u>	<u>\$ 5,385,334</u>	<u>\$ 17,005,334</u>

Bonds voted	\$ 42,685,000
Bonds approved for sale and sold	18,605,000
Bonds voted and not issued	24,080,000
Refunding bonds voted	12,000,000
Refunding bonds sold	3,100,000
Refunding bonds voted and not issued	8,900,000

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The Series 2000 and 2003 bonds are further payable from the net revenues from the operation of the waterworks and sewer system.

In accordance with the Series 2015 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:

Six months' interest from sale of bonds	\$ 67,341
Accrued interest received at date of sale	<u>5,612</u>
	72,953
Appropriation for bond interest paid	<u>(33,671)</u>
Bond interest reserve, end of year	<u>\$ 39,282</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The bond issues payable at October 31, 2015, were as follows:

	<u>Series 2000</u>	<u>Series 2003</u>		
Amounts outstanding, October 31, 2015	\$420,000	\$630,000		
Interest rates	5.20% to 5.30%	4.00% to 4.50%		
Maturity dates, serially beginning/ending	March 1, 2016/2018	September 1, 2016/2024		
Interest payment dates	March 1/September 1	March 1/September 1		
Callable dates	March 1, 2010*	September 1, 2012*		
	<u>Series 2012</u>	<u>Series 2013</u>	<u>Series 2015</u>	
Amounts outstanding, April 30, 2001	\$2,970,000	\$3,655,000	\$3,945,000	
Interest rates	2.50% to 4.20%	2.50% to 5.00%	3.00% to 3.75%	
Maturity dates, serially beginning/ending	September 1, 2019/2033	September 1, 2016/2037	September 1, 2016/2039	
Interest payment dates	March 1/September 1	March 1/September 1	1/September 1	
Callable dates	September 1, 2020*	September 1, 2021*	September 1, 2022*	

*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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On October 27, 2015, the District levied the following ad valorem taxes for the 2015 tax year and the 2016 fiscal year on the adjusted taxable valuation of \$242,349,592:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.3500	\$ 848,223
Maintenance	<u>0.1500</u>	<u>363,524</u>
	<u>\$ 0.5000</u>	<u>\$ 1,211,747</u>

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

2015 tax year total property tax levy	\$ 1,211,747
2015 tax year total property tax levy deferred to 2016 fiscal year	(1,211,747)
2014 tax year total property tax levy deferred to 2015 fiscal year	1,075,994
Appraisal district adjustments to prior year taxes	<u>43,781</u>
Statement of Activities property tax revenues	<u>\$ 1,119,775</u>

NOTE 7: DEPOSITS

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

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

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 \$7,399,713 and the bank balance was \$7,589,437. Of the bank balance, \$1,484,356 was covered by federal insurance and \$6,105,081 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	\$ 113,783
Temporary investments	<u>800,000</u>
	<u>\$ 913,783</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital Projects Fund

For construction of capital assets:

Cash	<u>\$ 5,322,310</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, 2015, the District had physical damage and boiler and machinery coverage of \$4,588,000, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, worker’s compensation coverage of \$1,000,000, consultant’s crime coverage of \$50,000 and a tax assessor-collector bond of \$10,000.

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 June 17, 2015, 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 -- 14.70%; Harris County Municipal Utility District No. 62 -- 16.18%; Harris County Municipal Utility District No. 63 -- 8.79%; Harris County Municipal Utility District No. 64 -- 14.22%; Harris County Municipal Utility District No. 65 -- 17.29%; West Harris County Municipal Utility District No. 2 -- 15.65%; West Harris County Municipal Utility District No. 5 -- 9.66%; Westside Ventures, Ltd. -- 3.51%. 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, 2015, the District's share of the Authority's general and capital outlay expenditures was \$89,422 and \$11,202, respectively. The District's share of the Authority's operating reserve was \$10,000 at October 31, 2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following summary financial data of the Authority's General Fund is presented for the Authority's fiscal year ended October 31, 2015:

	Authority Total	District's Share
Total assets	\$ 120,053	
Total liabilities	(120,053)	
Total fund balance	0	\$ 10,000
Operating reserve	(70,000)	(10,000)
Undesignated fund balance	\$ (70,000)	\$ 0
Total revenues	\$ 862,283	\$ 100,624
Total expenditures	(862,283)	(100,624)
Excess revenues (expenditures)	0	0
Fund balance, beginning of year	70,000	10,000
Fund balance, end of year	\$ 70,000	\$ 10,000

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 March 25, 2003, 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, 2015, the District's share of Facilities' general and capital outlay expenditures was \$240,478 and \$280,419, respectively. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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, 2015, were \$279,501. The District billed its customers \$196,469 during the fiscal year to pay for the District's share of 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.

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, 2015, the District received credits of \$24,048 under the provisions of the Contract. \$10,594 of this amount was recorded as principal and \$13,454 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
2016	\$ 11,096	\$ 12,952	\$ 24,048
2017	11,622	12,426	24,048
2018	12,173	11,875	24,048
2019	12,750	11,298	24,048
2020	13,354	10,694	24,048
2021-2025	76,881	43,359	120,240
2026-2030	96,907	23,333	120,240
2031-2033	49,481	2,623	52,104
	<u>\$ 284,264</u>	<u>\$ 128,560</u>	<u>\$ 412,824</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT

Utilizing a provision of Texas law, the City of Houston (“City”) and the District entered into the Second Amended and Restated Strategic Partnership Agreement (“SPA”) effective as of June 5, 2015, which superseded and replaced the SPA dated April 11, 2003, as amended effective December 14, 2009. Under the terms of the SPA, the City annexed a portion of the 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 SPA 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 SPA at the time of the limited-purpose annexation of the Partial District. The SPA provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the SPA 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 \$65,978 from the City for the fiscal year ended October 31, 2015, of which \$16,827 was receivable at that date.

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, 2015, 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, 2015.

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 202,958	\$ 202,958	\$ 293,056	\$ 90,098
Water service	230,248	230,248	230,321	73
Sewer service	160,604	160,604	153,356	(7,248)
Surface water fees	196,000	196,000	196,469	469
Penalty	0	0	7,890	7,890
Tap connection and inspection fees	0	0	65,720	65,720
Sales and Use Taxes	22,000	22,000	65,978	43,978
Interest on prepaid surface water capital cont.	0	0	13,454	13,454
Interest on deposits	850	850	1,959	1,109
Other revenues	0	0	11,862	11,862
TOTAL REVENUES	812,660	812,660	1,040,065	227,405
EXPENDITURES				
Service operations:				
Purchased services	369,795	369,795	329,900	(39,895)
Professional fees	142,750	142,750	115,429	(27,321)
Contracted services	38,000	38,000	40,141	2,141
Utilities	6,000	6,000	8,055	2,055
Repairs and maintenance	142,500	142,500	138,847	(3,653)
Other operating expenditures	8,350	8,350	11,859	3,509
Administrative expenditures	76,486	76,486	68,413	(8,073)
Capital outlay	3,000	3,000	33,702	30,702
TOTAL EXPENDITURES	786,881	786,881	746,346	(40,535)
EXCESS REVENUES (EXPENDITURES)	25,779	25,779	293,719	267,940
FUND BALANCE, BEGINNING OF YEAR	887,086	887,086	887,086	0
FUND BALANCE, END OF YEAR	\$ 912,865	\$ 912,865	\$ 1,180,805	\$ 267,940

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, 2015

	<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	\$ 431,820	\$ 431,820	\$ 537,999	\$ 106,179
Harris County Municipal Utility District No. 62	82,130	82,130	272,064	189,934
Interest on deposits	0	0	47	47
TOTAL REVENUES	<u>513,950</u>	<u>513,950</u>	<u>810,110</u>	<u>296,160</u>
EXPENDITURES				
Service operations:				
Professional fees	1,500	1,500	11,215	9,715
Contracted services	9,800	9,800	8,700	(1,100)
Utilities	62,000	62,000	44,544	(17,456)
Surface water pumpage fees	355,000	355,000	279,501	(75,499)
Repairs and maintenance	60,000	60,000	33,845	(26,155)
Other operating expenditures	17,500	17,500	4,911	(12,589)
Administrative expenditures	8,150	8,150	8,168	18
Capital outlay	0	0	419,226	419,226
TOTAL EXPENDITURES	<u>513,950</u>	<u>513,950</u>	<u>810,110</u>	<u>296,160</u>
EXCESS REVENUES (EXPENDITURES)	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, 2015

(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, 2015

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: \$2.15 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: \$21.50

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

SCHEDULE OF SERVICES AND RATES (Continued)

OCTOBER 31, 2015

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	578	576	1.0	576
1"	5	5	2.5	13
1-1/2"	3	3	5.0	15
2"	30	30	8.0	240
3"	0	0	15.0	0
4"	0	0	25.0	0
6"	0	0	50.0	0
8"	2	2	80.0	160
10"	0	0	115.0	0
Total Water	<u>618</u>	<u>616</u>		<u>1,004</u>
Total Wastewater	<u>602</u>	<u>600</u>	1.0	<u>600</u>

*Single family equivalents

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

Gallons pumped into system (unaudited):	<u>154,564</u>
Gallons billed to No. 61 customers (unaudited):	<u>92,856</u>
Gallons billed to No. 62 customers (unaudited):	<u>54,355</u>
Total gallons billed to customers (unaudited):	<u>147,211</u>

Water Accountability Ratio
(Gallons billed/ gallons pumped): 95%

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: _____

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61EXPENDITURESFOR THE YEAR ENDED OCTOBER 31, 2015

	<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	\$ 240,478	\$	\$	\$	\$ 240,478
Sewer	89,422				89,422
	<u>329,900</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>329,900</u>
Professional fees:					
Auditing	10,250	1,080			11,330
Legal	67,282	812	2,229		70,323
Engineering	37,897	9,323			47,220
	<u>115,429</u>	<u>11,215</u>	<u>2,229</u>	<u>0</u>	<u>128,873</u>
Contracted services:					
Bookkeeping	14,100	5,100			19,200
Operation and billing	26,041	3,600			29,641
Tax assessor-collector			14,784		14,784
Central appraisal district			9,513		9,513
	<u>40,141</u>	<u>8,700</u>	<u>24,297</u>	<u>0</u>	<u>73,138</u>
Utilities	<u>8,055</u>	<u>44,544</u>	<u>0</u>	<u>0</u>	<u>52,599</u>
Surface water pumpage fees	<u>0</u>	<u>279,501</u>	<u>0</u>	<u>0</u>	<u>279,501</u>
Repairs and maintenance	<u>138,847</u>	<u>33,845</u>	<u>0</u>	<u>0</u>	<u>172,692</u>
Other operating expenditures:					
Chemicals		4,807			4,807
Laboratory costs	8,361	104			8,465
TCEQ assessment	1,818				1,818
Other	1,680				1,680
	<u>11,859</u>	<u>4,911</u>	<u>0</u>	<u>0</u>	<u>16,770</u>
Administrative expenditures:					
Director's fees	11,550				11,550
Office supplies and postage	35,686	886			36,572
Insurance	4,352	7,282	50		11,684
Other	16,825		1,156		17,981
	<u>68,413</u>	<u>8,168</u>	<u>1,206</u>	<u>0</u>	<u>77,787</u>
CAPITAL OUTLAY					
Authorized expenditures	11,202	419,226		694,839	1,125,267
Tap connection fees	22,500				22,500
	<u>33,702</u>	<u>419,226</u>	<u>0</u>	<u>694,839</u>	<u>1,147,767</u>
DEBT SERVICE					
Principal retirement	<u>0</u>	<u>0</u>	<u>385,000</u>	<u>0</u>	<u>385,000</u>
Bond issuance expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>269,811</u>	<u>269,811</u>
Interest and fees:					
Interest			335,038		335,038
Paying agent fees			1,550		1,550
	<u>0</u>	<u>0</u>	<u>336,588</u>	<u>0</u>	<u>336,588</u>
TOTAL EXPENDITURES	<u>\$ 746,346</u>	<u>\$ 810,110</u>	<u>\$ 749,320</u>	<u>\$ 964,650</u>	<u>\$ 3,270,426</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, 2015

	<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	\$ 711,810	\$ 444,516	\$ 835,639	\$ 3,503	\$ 1,995,468
Maintenance tax collections			293,056		293,056
Maintenance tax transfers	297,313				297,313
Proceeds from sale of bonds			67,341	3,765,764	3,833,105
Reimbursement from other fund	268,918				268,918
Increase in customer and builder deposits	1,350				1,350
Principal repayment from surface water capital contribution	10,594				10,594
Overpayments from taxpayers			<u>3,219</u>		<u>3,219</u>
TOTAL DEPOSITS PROVIDED	<u>1,289,985</u>	<u>444,516</u>	<u>1,199,255</u>	<u>3,769,267</u>	<u>6,703,023</u>
APPLICATIONS OF DEPOSITS					
Cash disbursements for:					
Current expenditures	459,339	314,276	27,625		801,240
Capital outlay	33,702	149,926		369,684	553,312
Debt service			721,588	269,811	991,399
Other fund				3,751	3,751
Maintenance tax transfers			297,313		297,313
Reimbursement to other fund				268,918	268,918
Refund of taxpayer overpayments			<u>3,974</u>		<u>3,974</u>
TOTAL DEPOSITS APPLIED	<u>493,041</u>	<u>464,202</u>	<u>1,050,500</u>	<u>912,164</u>	<u>2,919,907</u>
INCREASE (DECREASE) IN DEPOSITS	796,944	(19,686)	148,755	2,857,103	3,783,116
DEPOSITS BALANCES, BEGINNING OF YEAR	<u>361,492</u>	<u>24,870</u>	<u>765,028</u>	<u>2,465,207</u>	<u>3,616,597</u>
DEPOSITS BALANCES, END OF YEAR	<u>\$ 1,158,436</u>	<u>\$ 5,184</u>	<u>\$ 913,783</u>	<u>\$ 5,322,310</u>	<u>\$ 7,399,713</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61SCHEDULE OF CERTIFICATES OF DEPOSITOCTOBER 31, 2015

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 1002659940	0.50%	7/27/16	\$ 200,499	\$ 263
No. 331736	0.20%	2/22/16	<u>200,000</u>	<u>75</u>
			<u>\$ 400,499</u>	<u>\$ 338</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 12843	0.50%	2/19/16	\$ 200,000	\$ 433
No. 6000021870	0.50%	2/19/16	200,000	433
No. 530783	0.60%	2/19/16	200,000	835
No. 9009003939	0.40%	2/19/16	<u>200,000</u>	<u>149</u>
			<u>\$ 800,000</u>	<u>\$ 1,850</u>
Total – All Funds			<u>\$ 1,200,499</u>	<u>\$ 2,188</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED OCTOBER 31, 2015

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 284,783	\$ 797,609
Additions and corrections to prior year taxes	<u>11,477</u>	<u>32,304</u>
Adjusted receivable, beginning of year	296,260	829,913
2015 ADJUSTED TAX ROLL	<u>363,524</u>	<u>848,223</u>
Total to be accounted for	659,784	1,678,136
Tax collections: Current tax year	0	0
Prior tax years	<u>(293,056)</u>	<u>(820,688)</u>
RECEIVABLE, END OF YEAR	<u>\$ 366,728</u>	<u>\$ 857,448</u>
RECEIVABLE, BY TAX YEAR		
2008	\$ 35	\$ 105
2009	103	302
2010	154	452
2011	128	374
2012	99	290
2013	1,379	4,045
2014	1,306	3,657
2015	<u>363,524</u>	<u>848,223</u>
RECEIVABLE, END OF YEAR	<u>\$ 366,728</u>	<u>\$ 857,448</u>

Fiscal year 2015 General Fund property tax revenue of \$293,056 under the modified accrual basis of accounting is comprised of prior tax year collections of \$293,056 during fiscal year 2015.

Fiscal year 2015 Debt Service Fund property tax revenue of \$820,688 under the modified accrual basis of accounting is comprised of prior tax year collections of \$820,688 during fiscal year 2015.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED OCTOBER 31, 2015

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2015**</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 93,778,556	\$ 88,008,232	\$ 52,875,047	\$ 47,343,915
Improvements	159,834,795	124,102,559	102,041,793	89,660,426
Personal property	31,336,273	12,847,538	7,749,294	4,765,157
Less exemptions	<u>(42,600,032)</u>	<u>(29,377,086)</u>	<u>(23,305,355)</u>	<u>(21,665,796)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 242,349,592</u>	 <u>\$ 195,581,243</u>	 <u>\$ 139,360,779</u>	 <u>\$ 120,103,702</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.35000	\$ 0.42000	\$ 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>\$ 0.50000</u>	 <u>\$ 0.57000</u>	 <u>\$ 0.59000</u>	 <u>\$ 0.59000</u>
 TAX ROLLS	 <u>\$ 1,211,747</u>	 <u>\$ 1,114,810</u>	 <u>\$ 822,226</u>	 <u>\$ 708,609</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>0.0%**</u>	 <u>99.6%*</u>	 <u>99.3%</u>	 <u>99.9%</u>

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

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

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
OCTOBER 31, 2015

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2000</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2016	\$ 140,000	\$ 18,410	\$ 158,410
2017	140,000	11,095	151,095
2018	<u>140,000</u>	<u>3,710</u>	<u>143,710</u>
TOTALS	<u>\$ 420,000</u>	<u>\$ 33,215</u>	<u>\$ 453,215</u>

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2003</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2016	\$ 70,000	\$ 26,880	\$ 96,880
2017	70,000	24,080	94,080
2018	70,000	21,280	91,280
2019	70,000	18,340	88,340
2020	70,000	15,400	85,400
2021	70,000	12,425	82,425
2022	70,000	9,450	79,450
2023	70,000	6,300	76,300
2024	<u>70,000</u>	<u>3,150</u>	<u>73,150</u>
TOTALS	<u>\$ 630,000</u>	<u>\$ 137,305</u>	<u>\$ 767,305</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2015

Due During Fiscal Years Ending October 31	Series 2012		
	Principal Due September 1	Interest Due March 1, September 1	Total
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>\$ 1,343,246</u>	<u>\$ 4,313,246</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2015

<u>Due During Fiscal Years Ending October 31</u>	<u>Series 2013</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2016	\$ 175,000	\$ 132,411	\$ 307,411
2017	175,000	128,037	303,037
2018	175,000	123,662	298,662
2019	175,000	119,288	294,288
2020	175,000	114,912	289,912
2021	175,000	110,538	285,538
2022	175,000	105,726	280,726
2023	175,000	100,474	275,474
2024	175,000	95,226	270,226
2025	175,000	89,538	264,538
2026	175,000	83,412	258,412
2027	175,000	76,850	251,850
2028	175,000	69,850	244,850
2029	175,000	62,850	237,850
2030	175,000	55,850	230,850
2031	175,000	48,412	223,412
2032	175,000	40,976	215,976
2033	180,000	33,100	213,100
2034	125,000	25,000	150,000
2035	125,000	18,750	143,750
2036	125,000	12,500	137,500
2037	125,000	6,250	131,250
TOTALS	<u>\$ 3,655,000</u>	<u>\$ 1,653,612</u>	<u>\$ 5,308,612</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2015

Due During Fiscal Years Ending October 31	Series 2015		
	Principal Due March 1	Interest Due March 1, September 1	Total
2016	\$ 50,000	\$ 134,682	\$ 184,682
2017	50,000	133,182	183,182
2018	60,000	131,682	191,682
2019	70,000	129,882	199,882
2020	80,000	127,780	207,780
2021	90,000	125,380	215,380
2022	100,000	122,680	222,680
2023	110,000	119,682	229,682
2024	120,000	116,382	236,382
2025	130,000	112,782	242,782
2026	140,000	108,882	248,882
2027	150,000	104,682	254,682
2028	160,000	100,180	260,180
2029	170,000	94,980	264,980
2030	180,000	89,456	269,456
2031	190,000	83,382	273,382
2032	200,000	76,968	276,968
2033	200,000	69,968	269,968
2034	225,000	62,968	287,968
2035	250,000	54,812	304,812
2036	275,000	45,750	320,750
2037	300,000	35,438	335,438
2038	320,000	24,188	344,188
2039	325,000	12,188	337,188
TOTALS	\$ 3,945,000	\$ 2,217,956	\$ 6,162,956

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
OCTOBER 31, 2015

<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>
2016	\$ 435,000	\$ 421,663	\$ 856,663
2017	435,000	405,674	840,674
2018	445,000	389,614	834,614
2019	465,000	376,790	841,790
2020	475,000	363,622	838,622
2021	485,000	349,373	834,373
2022	495,000	334,386	829,386
2023	505,000	318,110	823,110
2024	515,000	301,538	816,538
2025	530,000	283,850	813,850
2026	540,000	265,948	805,948
2027	550,000	246,750	796,750
2028	560,000	226,810	786,810
2029	570,000	205,610	775,610
2030	580,000	184,086	764,086
2031	595,000	161,574	756,574
2032	615,000	138,524	753,524
2033	630,000	113,568	743,568
2034	350,000	87,968	437,968
2035	375,000	73,562	448,562
2036	400,000	58,250	458,250
2037	425,000	41,688	466,688
2038	320,000	24,188	344,188
2039	325,000	12,188	337,188
TOTALS	<u>\$ 11,620,000</u>	<u>\$ 5,385,334</u>	<u>\$ 17,005,334</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, 2015

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
Bond Series:	2000	2003	2012
Interest Rate:	5.20% to 5.30%	4.00% 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, 2016/2018	September 1, 2016/2024	September 1, 2019/2033
Bonds Outstanding at Beginning of Current Year	\$ 560,000	\$ 700,000	\$ 2,970,000
Less Retirements	<u>(140,000)</u>	<u>(70,000)</u>	<u>0</u>
Bonds Outstanding at End of Current Year	<u>\$ 420,000</u>	<u>\$ 630,000</u>	<u>\$ 2,970,000</u>
Current Year Interest Paid	<u>\$ 25,620</u>	<u>\$ 29,680</u>	<u>\$ 109,280</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

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT, (Continued)
FOR THE YEAR ENDED OCTOBER 31, 2015

	<u>(4)</u>	<u>(5)</u>	<u>Totals</u>
Bond Series:	2013	2015	
Interest Rate:	2.50% to 5.00%	3.00% to 3.75%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	
Maturity Dates:	September 1, 2016/2037	September 1, 2016/2039	
Bonds Outstanding at Beginning of Current Year	\$ 3,830,000	\$ 0	\$ 8,060,000
Add Bonds Sold		3,945,000	3,945,000
Less Retirements	<u>(175,000)</u>		<u>(385,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 3,655,000</u>	<u>\$ 3,945,000</u>	<u>\$ 11,620,000</u>
Current Year Interest Paid	<u>\$ 136,787</u>	<u>\$ 33,671</u>	<u>\$ 335,038</u>

Bond Descriptions and Original Amount of Issue

(4) Harris County Municipal Utility District No. 61 Unlimited Tax Bonds, Series 2013 (\$4,005,000)

(5) Harris County Municipal Utility District No. 61 Unlimited Tax Bonds, Series 2015 (\$3,945,000)

Paying Agent/Registrar

(4) (5) The Bank of New York Mellon Trust Company, N.A., Dallas, 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:	18,605,000		3,100,000
Remaining to be Issued:	24,080,000		8,900,000

Net Debt Service Fund deposits and investments balances as of October 31, 2015: \$915,133
Average annual debt service payment for remaining term of all debt: 708,556

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				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
REVENUES										
Property taxes	\$ 293,056	\$ 207,864	\$ 177,261	\$ 178,915	\$ 167,896	28.2 %	24.0 %	17.9 %	20.0 %	17.3 %
Water service	230,321	214,560	233,526	195,178	210,657	22.1	24.9	23.6	21.8	21.7
Sewer service	153,356	144,842	142,023	128,108	116,826	14.7	16.7	14.3	14.3	12.0
Surface water fees	196,469	191,475	227,916	183,613	203,883	18.9	22.1	23.0	20.5	21.0
Penalty	7,890	7,760	8,505	7,830	18,644	0.8	0.9	0.9	0.9	1.9
Tap connection and inspection fees	65,720	10,650	148,365	158,591	205,509	5.8	1.2	14.9	17.7	21.1
Sales and Use Taxes	65,978	64,603	30,900	19,115	22,121	6.3	7.5	3.1	2.1	2.3
Interest on prepaid surface water capital contribution	13,454	13,933	14,390	14,827	15,245	1.3	1.6	1.4	1.7	1.6
Interest on deposits	1,959	1,557	1,412	1,104	1,440	0.2	0.2	0.1	0.1	0.1
Other revenues	11,862	7,916	8,194	8,291	9,468	1.7	0.9	0.8	0.9	1.0
TOTAL REVENUES	1,040,065	865,160	992,492	895,572	971,689	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased services	329,900	356,085	409,334	438,743	396,714	31.8	41.3	41.1	49.1	40.8
Professional fees	115,429	165,731	146,365	142,626	123,017	11.1	19.2	14.7	15.9	12.7
Contracted services	40,141	37,167	39,486	28,708	23,861	3.9	4.3	4.0	3.2	2.5
Utilities	8,055	9,716	11,774	11,002	9,459	0.8	1.1	1.2	1.2	1.0
Repairs and maintenance	138,847	169,612	147,847	66,880	115,493	13.3	19.6	14.9	7.5	11.9
Other operating expenditures	11,859	10,487	9,513	8,424	4,632	1.1	1.2	1.0	0.9	0.5
Administrative expenditures	68,413	56,577	52,107	35,039	33,450	6.6	6.5	5.3	3.9	3.4
Capital outlay	33,702	58,795	169,471	58,055	205,317	3.2	6.8	17.1	6.5	21.1
TOTAL EXPENDITURES	746,346	864,170	985,897	789,477	911,943	71.8	100.0	99.3	88.2	93.9
EXCESS REVENUES (EXPENDITURES)	\$ 293,719	\$ 990	\$ 6,595	\$ 106,095	\$ 59,746	28.2 %	0.0 %	0.7 %	11.8 %	6.1 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	616	604	604	599	589					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	600	594	595	593	583					

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

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
REVENUES										
Property taxes	\$ 820,688	\$ 609,734	\$ 519,964	\$ 524,816	\$ 492,494	98.0 %	97.1 %	97.8 %	93.1 %	98.3 %
Penalty and interest	7,478	8,776	9,335	15,450	5,717	0.9	1.4	1.8	2.7	1.1
Accrued interest on bonds received at date of sale	5,612	7,842	0	3,946	0	0.7	1.2	0.0	0.7	0.0
Interest on deposits and other	3,029	2,097	2,027	19,693	2,752	0.4	0.3	0.4	3.5	0.5
TOTAL REVENUES	836,807	628,449	531,326	563,905	500,963	100.0	100.0	100.0	100.0	99.9
EXPENDITURES										
Current:										
Professional fees	2,229	3,240	1,145	7,615	1,898	0.3	0.5	0.2	1.4	0.4
Contracted services	24,297	20,815	20,357	17,544	16,069	2.9	3.3	3.8	3.1	3.2
Other expenditures	1,206	1,122	1,491	4,768	9,767	0.1	0.2	0.3	0.8	1.9
Debt service:										
Principal retirement	385,000	385,000	210,000	210,000	480,000	46.0	61.3	39.6	37.3	95.8
Interest and fees	336,588	294,100	185,982	150,039	100,889	40.2	46.8	35.0	26.6	20.1
TOTAL EXPENDITURES	749,320	704,277	418,975	389,966	608,623	89.5	112.1	78.9	69.2	121.4
EXCESS REVENUES (EXPENDITURES)	\$ 87,487	\$ (75,828)	\$ 112,351	\$ 173,939	\$ (107,660)	10.5 %	(12.1) %	21.1 %	30.8 %	(21.5) %

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSOCTOBER 31, 2015

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: December 9, 2014

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 11/04/14- 11/08/18	\$ 2,850	\$ 2,490	President
R. D. Sherrill c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 11/06/12 11/08/16	1,800	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	2,100	55	Secretary
Walter B. Smith c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 11/06/12 11/08/16	3,000	1,670	Assistant Secretary
Billy Lowery c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098	Elected 11/04/14- 11/08/18	1,800	0	Director

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)OCTOBER 31, 2015CONSULTANTS

<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	\$ 71,080 113,137 Bonds	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 N. Loop West, Suite 600 Houston, Texas 77008	2/13/97	2,229	Delinquent Tax Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	Prior to 11/1/83	22,355 3,000 Bonds	Bookkeeper
Beulah Kelly 3401 Louisiana, Suite 400 Houston, Texas 77002	3/9/00	0	Investment Officer
Municipal Operations & Consulting, Inc. 27316 Spectrum Way Oak Ridge, Texas 77385	6/26/12	171,053	Operator
A&S Engineers, Inc. 10377 Stella Link Road Houston, Texas 77025	6/16/99	166,872	Engineer
Cathy Wheeler 6935 Barney Road, Suite 110 Houston, Texas 77092	3/9/06	14,784 2,000 Bonds	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	9,513	Central Appraisal District
First Southwest Company 700 Milam Street, Suite 500 Houston, Texas 77002	2/1/96	78,475 Bonds	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	8/14/08	11,330 1,250 Bonds	Independent Auditor

See accompanying independent auditor's report.