

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2017

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264

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ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 264
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 264 (the "District"), as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

June 28, 2017

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

Management's discussion and analysis of Harris County Municipal Utility District No. 264's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 2017. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide statements is the Statement of Net Position. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities reports how the District's net position changed during the current year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

FUND FINANCIAL STATEMENTS (Continued)

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

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental fund. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position, and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$6,419,898 as of March 31, 2017. A portion of the District's net position reflects its net investment in capital assets. Net position consists of water and wastewater facilities as well as the District's capacity interest in the HC MUD No. 70 joint facilities, less any debt issued to acquire those assets. The following is a comparative analysis of the government-wide change in net position:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2017</u>	<u>2016</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 5,462,261	\$ 5,951,381	\$ (489,120)
Capital Assets (Net of Accumulated Depreciation)	<u>4,774,635</u>	<u>3,932,465</u>	<u>842,170</u>
Total Assets	<u>\$ 10,236,896</u>	<u>\$ 9,883,846</u>	<u>\$ 353,050</u>
Bonds Payable	\$ 3,255,000	\$ 3,375,000	\$ 120,000
Other Liabilities	<u>561,998</u>	<u>281,954</u>	<u>(280,044)</u>
Total Liabilities	<u>\$ 3,816,998</u>	<u>\$ 3,656,954</u>	<u>\$ (160,044)</u>
Net Position:			
Net Investment in Capital Assets	\$ 3,316,805	\$ 3,364,776	\$ (47,971)
Restricted	278,553	249,974	28,579
Unrestricted	<u>2,824,540</u>	<u>2,612,142</u>	<u>212,398</u>
Total Net Position	<u>\$ 6,419,898</u>	<u>\$ 6,226,892</u>	<u>\$ 193,006</u>

The following table provides a comparative analysis of the District's operations for the years ended March 31, 2017, and March 31, 2016.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 838,683	\$ 799,879	\$ 38,804
Charges for Services	971,861	1,014,366	(42,505)
Other Revenues	<u>23,803</u>	<u>31,255</u>	<u>(7,452)</u>
Total Revenues	<u>\$ 1,834,347</u>	<u>\$ 1,845,500</u>	<u>\$ (11,153)</u>
Expenses for Services	<u>1,641,341</u>	<u>1,822,018</u>	<u>180,677</u>
Change in Net Position	\$ 193,006	\$ 23,482	\$ 169,524
Net Position, Beginning of Year	<u>6,226,892</u>	<u>6,203,410</u>	<u>23,482</u>
Net Position, End of Year	<u>\$ 6,419,898</u>	<u>\$ 6,226,892</u>	<u>\$ 193,006</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2017, were \$4,872,764, a decrease of \$774,192 from the prior year.

The General Fund fund balance increased by \$210,465, primarily due to operating and tax revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$25,484, primarily due to the structure of the District's debt.

The Capital Projects Fund fund balance decreased by \$1,010,141, primarily due to current year capital outlay paid from bonds issued in a prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted a budget for the current fiscal year. Actual revenues were \$69,256 less than budgeted revenues primarily due to lower than anticipated service revenues offset by higher than anticipated tax revenues. Actual expenditures were \$25,099 more than budgeted expenditures primarily due to greater than anticipated professional fees, repairs and maintenance costs, and bulk water purchases offset by lower than budgeted water authority costs.

CAPITAL ASSETS

Capital assets as of March 31, 2017, total \$4,774,635 (net of accumulated depreciation), and include land as well as the water and wastewater systems. The District also owns capacity in certain Harris County Municipal Utility District No. 70 facilities. Significant current year capital outlay consisted of the ground storage tank no. 1 replacement and the replacement of the motor control center for the lift station, remote water well and water plant no. 1.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 96,043	\$ 96,043	\$
Construction in Progress	1,084,952	208,029	876,923
Capital Assets, Net of Accumulated Depreciation:			
Water System	1,902,436	2,000,320	(97,884)
Wastewater System	989,326	1,038,443	(49,117)
Capacity Interest in HC MUD No. 70 Facilities	701,878	589,630	112,248
Total Net Capital Assets	<u>\$ 4,774,635</u>	<u>\$ 3,932,465</u>	<u>\$ 842,170</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

LONG-TERM DEBT ACTIVITY

The changes in the debt position of the District during the year ended March 31, 2017, are summarized as follows:

Bond Debt Payable, April 1, 2016	\$ 3,375,000
Less: Bond Principal Paid	<u>120,000</u>
Bond Debt Payable, March 31, 2017	<u>\$ 3,255,000</u>

The District has an underlying rating of "A2" issued by Moody's Investors Service. The Series 2015 bonds carry insured ratings of "AA" issued by Standard and Poor's, "A2" issued by Moody's Investors Service and "AA+" issued by Kroll Bond Rating Agency, all by virtue of bond insurance issued by Assured Guaranty Municipal.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 264, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
ASSETS						
Cash	\$ 532,795	\$ 89,448	\$ 2,204,530	\$ 2,826,773		\$ 2,826,773
Investments	2,236,504	216,854		2,453,358		2,453,358
Receivables:						
Property Taxes	14,137	11,440		25,577		25,577
Penalty and Interest on Delinquent Taxes					10,012	10,012
Service Accounts (Net of Allowance for Doubtful Accounts of \$1,000)	72,870			72,870		72,870
Cy-Fair ISD	10,305			10,305		10,305
Due from Other Funds	40,432			40,432	(40,432)	
Operating Advance	63,366			63,366		63,366
Land					96,043	96,043
Construction in Progress					1,084,952	1,084,952
Capital Assets (Net of Accumulated Depreciation)					3,593,640	3,593,640
TOTAL ASSETS	<u>\$ 2,970,409</u>	<u>\$ 317,742</u>	<u>\$ 2,204,530</u>	<u>\$ 5,492,681</u>	<u>\$ 4,744,215</u>	<u>\$ 10,236,896</u>
LIABILITIES						
Accounts Payable	\$ 145,869	\$ 679	\$ 407,360	\$ 553,908		\$ 553,908
Accrued Interest Payable					8,090	8,090
Due to Other Funds		40,432		40,432	(40,432)	
Long-Term Liabilities:						
Bonds Payable, Due Within One Year					125,000	125,000
Bonds Payable, Due After One Year					3,130,000	3,130,000
TOTAL LIABILITIES	<u>\$ 145,869</u>	<u>\$ 41,111</u>	<u>\$ 407,360</u>	<u>\$ 594,340</u>	<u>\$ 3,222,658</u>	<u>\$ 3,816,998</u>
DEFERRED INFLOWS OF RESOURCES						
Property Taxes	\$ 14,137	\$ 11,440	\$ -0-	\$ 25,577	\$ (25,577)	\$ -0-
FUND BALANCES						
Nonspendable Operating Advance	\$ 63,366			\$ 63,366	\$ (63,366)	
Restricted for Authorized Construction			1,797,170	1,797,170	(1,797,170)	
Restricted for Debt Service		265,191		265,191	(265,191)	
Unassigned	2,747,037			2,747,037	(2,747,037)	
TOTAL FUND BALANCES	<u>\$ 2,810,403</u>	<u>\$ 265,191</u>	<u>\$ 1,797,170</u>	<u>\$ 4,872,764</u>	<u>\$ (4,872,764)</u>	<u>\$ - 0 -</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
	<u>\$ 2,970,409</u>	<u>\$ 317,742</u>	<u>\$ 2,204,530</u>	<u>\$ 5,492,681</u>		
NET POSITION						
Net Investment in Capital Assets					\$ 3,316,805	\$ 3,316,805
Restricted for Debt Service					278,553	278,553
Unrestricted					2,824,540	2,824,540
TOTAL NET POSITION					<u>\$ 6,419,898</u>	<u>\$ 6,419,898</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2017**

Total Fund Balances - Governmental Funds \$ 4,872,764

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 4,774,635

Deferred tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District. 35,589

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (8,090)	
Bonds Payable	<u>(3,255,000)</u>	<u>(3,263,090)</u>

Total Net Position - Governmental Activities \$ 6,419,898

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
REVENUES						
Property Taxes	\$ 561,209	\$ 274,268	\$	\$ 835,477	\$ 3,206	\$ 838,683
Water Service	281,353			281,353		281,353
Wastewater Service	222,043			222,043		222,043
Water Authority Fees	448,139			448,139		448,139
Penalty and Interest	13,153	2,470		15,623	1,622	17,245
Sales Tax Revenues	3,081			3,081		3,081
Miscellaneous Revenues	19,766	1,156	2,881	23,803		23,803
TOTAL REVENUES	\$ 1,548,744	\$ 277,894	\$ 2,881	\$ 1,829,519	\$ 4,828	\$ 1,834,347
EXPENDITURES/EXPENSES						
Service Operations:						
Professional Fees	\$ 171,516	\$ 482	\$ 6,774	\$ 178,772	\$	\$ 178,772
Contracted Services	80,606	26,976		107,582		107,582
Purchased Water Service	331,816			331,816		331,816
Purchased Wastewater Service	218,946			218,946		218,946
Utilities	58,711			58,711		58,711
Water Authority Pumpage Fees	52,540			52,540		52,540
Repairs and Maintenance	227,860		4,302	232,162		232,162
Depreciation					213,377	213,377
Other	142,467	6,676	216	149,359		149,359
Capital Outlay	53,817		1,001,730	1,055,547	(1,055,547)	
Debt Service:						
Bond Principal		120,000		120,000	(120,000)	
Bond Interest		98,276		98,276	(200)	98,076
TOTAL EXPENDITURES/EXPENSES	\$ 1,338,279	\$ 252,410	\$ 1,013,022	\$ 2,603,711	\$ (962,370)	\$ 1,641,341
NET CHANGE IN FUND BALANCES	\$ 210,465	\$ 25,484	\$ (1,010,141)	\$ (774,192)	\$ 774,192	\$
CHANGE IN NET POSITION					193,006	193,006
FUND BALANCES/NET POSITION - APRIL 1, 2016	2,599,938	239,707	2,807,311	5,646,956	579,936	6,226,892
FUND BALANCES/NET POSITION - MARCH 31, 2017	\$ 2,810,403	\$ 265,191	\$ 1,797,170	\$ 4,872,764	\$ 1,547,134	\$ 6,419,898

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2017**

Net Change in Fund Balances - Governmental Funds	\$ (774,192)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.</p>	3,206
<p>Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.</p>	1,622
<p>Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.</p>	(213,377)
<p>Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.</p>	1,055,547
<p>Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.</p>	120,000
<p>Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.</p>	<u>200</u>
Change in Net Position - Governmental Activities	<u><u>\$ 193,006</u></u>

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 264 (the “District”) was created effective March 21, 1984, by an Order of the Texas Water Commission now known as the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, and solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or to employ its own peace officers with powers to make arrests, and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on March 22, 1984, and the first bonds were delivered on July 25, 1985.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units. The District is a participant in the joint operations of a wastewater treatment plant. Oversight of the joint facility is by Harris County Municipal Utility District No. 70. Additional disclosure concerning this joint facility is provided in Note 8. Copies of financial statements for Harris County Municipal Utility District No. 70, which include the above mentioned facilities, are available at the office of Schwartz, Page and Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of net position imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of net position that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated to obtain net total revenues and expenses of the government-wide Statements of Activities.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund – To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund – To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

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

Amounts transferred from one fund to another fund are reported as other financing sources and uses and loans by one fund to another fund are reported as interfund receivables and payables. As of March 31, 2017, the District recorded a liability from the Debt Service Fund to the General Fund of \$40,432 for maintenance tax collections. This interfund liability is a result of a timing difference between tax collections and transfers.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Water System	10-45
Wastewater System	10-45

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances are classified in governmental funds using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 3. LONG-TERM DEBT

	Series 2015
Amount Outstanding - March 31, 2017	\$ 3,255,000
Interest Rates	2.00-3.75%
Maturity Dates – Serially Beginning/Ending	September 1, 2017/2035
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2022*

* Or any date thereafter, in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2015 term bonds maturing on September 1, 2026, September 1, 2028, September 1, 2030, September 1, 2033 and September 1, 2035, are subject to mandatory redemption beginning September 1, 2025, September 1, 2027, September 1, 2029, September 1, 2032, and September 1, 2034, respectively.

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2017:

	April 1, 2016	Additions	Retirements	March 31, 2017
Bonds Payable	\$ 3,375,000	\$ -0-	\$ 120,000	\$ 3,255,000
		Amount Due Within One Year		\$ 125,000
		Amount Due After One Year		3,130,000
		Total Bonds Payable		\$ 3,255,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 3. LONG-TERM DEBT (Continued)

As of March 31, 2017, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 125,000	\$ 95,826	\$ 220,826
2019	130,000	93,276	223,276
2020	135,000	90,626	225,626
2021	135,000	87,926	222,926
2022	140,000	85,106	225,106
2023-2028	785,000	371,502	1,156,502
2028-2032	935,000	241,529	1,176,529
2033-2036	870,000	66,219	936,219
	<u>\$ 3,255,000</u>	<u>\$ 1,132,010</u>	<u>\$ 4,387,010</u>

The District has no authorized but unissued bonds for utilities or refunding purposes. The District has authorized but unissued bonds for parks and recreational facilities of \$4,500,000. The bonds are payable from the proceeds of an ad valorem tax levied on all property subject to taxation within the District, without limitation as to rate or amount.

During the year ended March 31, 2017, the District levied an ad valorem debt service tax rate of \$0.115 per \$100 of assessed valuation, which resulted in a tax levy of \$275,298 on the adjusted taxable valuation of \$239,391,310 for the 2016 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

Lien Date - January 1.

Due Date - Not later than January 31.

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross debt proceeds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of the debt.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS
(Continued)

The bond order states that the District is required to provide to certain information repositories continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each audit period of the District.

In accordance with Series 2015 bond order, a portion of the bond proceeds were deposited into the Debt Service Fund and reserved for the payment of bond interest during the construction period. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

Bond Interest Reserve, April 1, 2016	\$ 29,566
Less: Series 2015 Interest Paid	<u>(29,566)</u>
Bond Interest Reserve, March 31, 2017	<u>\$ -0-</u>

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$2,826,773 and the bank balance was \$2,828,327. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2017, as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 532,795
DEBT SERVICE FUND	89,448
CAPITAL PROJECTS FUND	<u>2,204,530</u>
TOTAL DEPOSITS	<u>\$ 2,826,773</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program. The District's Investment Policy is more restrictive than the Public Funds Investment Act and allows the District to only invest in the following investment types: (1) obligations, of the United States or its agencies and instrumentalities, (2) certificates of deposit issued by a state or national bank domiciled in Texas, or a savings bank domiciled in Texas, or state or federal credit union domiciled in Texas that is guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Corporation or its successor; and secured by obligations that are authorized under the Investment Act, and (3) TexPool, Texas CLASS, TexSTAR, and LOGIC, investment pools, provided they comply with the Investment Act.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

The District also invests in Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), an external investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian of the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District’s position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

As of March 31, 2017, the District had the following investments and maturities:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities of Less Than 1 year</u>
<u>GENERAL FUND</u>		
TexPool	\$2,077,337	\$2,077,337
Texas CLASS	159,167	159,167
<u>DEBT SERVICE FUND</u>		
TexPool	216,854	216,854
TOTAL INVESTMENTS	<u>\$2,453,358</u>	<u>\$2,453,358</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2017, the District’s investments in TexPool and Texas CLASS were rated AAAM by Standard and Poor’s.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2017:

	April 1, 2016	Increases	Decreases	March 31, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 96,043	\$	\$	\$ 96,043
Construction in Progress	208,029	1,055,547	178,624	1,084,952
Total Capital Assets Not Being Depreciated	\$ 304,072	\$ 1,055,547	\$ 178,624	\$ 1,180,995
Capital Assets Subject to Depreciation				
Water System	\$ 4,950,670	\$ 26,861	\$	\$ 4,977,531
Wastewater System	2,147,461			2,147,461
Capacity in HCM 70 Facilities	1,219,138	151,763		1,370,901
Total Capital Assets Subject to Depreciation	\$ 8,317,269	\$ 178,624	\$ - 0 -	\$ 8,495,893
Accumulated Depreciation				
Water System	\$ 2,950,350	\$ 124,745	\$	\$ 3,075,095
Wastewater System	1,109,018	49,117		1,158,135
Capacity in HCM 70 Facilities	629,508	39,515		669,023
Total Accumulated Depreciation	\$ 4,688,876	\$ 213,377	\$ - 0 -	\$ 4,902,253
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 3,628,393	\$ (34,753)	\$ - 0 -	\$ 3,593,640
Total Capital Assets, Net of Accumulated Depreciation	\$ 3,932,465	\$ 1,020,794	\$ 178,624	\$ 4,774,635

NOTE 7. MAINTENANCE TAX

At an election held on April 7, 1984, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District. During the year ended March 31, 2017, the District levied an ad valorem maintenance tax rate of \$0.235 per \$100 of assessed valuation, which resulted in a tax levy of \$562,566 on the adjusted taxable valuation of \$239,391,310 for the 2016 tax year. This maintenance tax is placed in the General Fund to be used for any lawful purpose(s).

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 8. WASTE DISPOSAL AGREEMENT

On January 23, 1991, the District executed a Restated Waste Disposal Agreement (“Original Agreement”) with Harris County Municipal Utility District No. 70 (“District No. 70”) and Harris County Municipal Utility District No. 144. This agreement replaced two agreements between the District and District No. 70, dated April 26, 1984, and December 20, 1984, for the operation of a jointly owned wastewater treatment facility.

The Original Agreement was amended on May 27, 1992, January 24, 1995, July 26, 2001, and March 1, 2008, and was supplemented and amended by a SUPPLEMENT AND LIMITED AMENDMENT TO (1) Restated Waste Disposal Agreement, as amended, between Harris County Municipal Utility District No. 70, Harris County Municipal Utility District No. 144 and Harris County Municipal Utility District No. 264, and (2) Joint Sanitary Sewer Agreement between Harris County Municipal Utility District No. 70 and Harris County Municipal Utility District No. 144 (“Supplement”).

The Supplement is the result of: (1) a determination by the participants that MUD 70 had been billing the District for a portion of the maintenance and operating costs related to an on-site lift station (“Lift Station”) at the wastewater treatment plant (“WWTP”), even though neither the Original Agreement nor any amendments to it provided for such charges; and (2) an agreement among the participants, that the Lift Station does provide a recycle pumping service for the WWTP and that to compensate for this service, the District will participate in those costs on a pro rata basis. The overcharges for the Lift Station costs were resolved by a Settlement Agreement and Mutual Release effective June 1, 2011, under which the District received \$47,892.79. Going forward under the Supplement and the Original Agreement, the District is responsible for its pro rata share of the WWTP’s portion of the maintenance and operating costs of the Lift Station, subject to review and possible revision by the WWTP engineer on a bi-annual basis.

Pursuant to the Supplement and the Original Agreement, the capacity of the WWTP is 1,500,000 gallons, and District No. 70 holds legal title to the WWTP for the benefit of all participants. The District, along with the other participants, has an undivided equitable interest in the WWTP and owns capacity in the WWTP as follows:

	<u>Capacity</u>	<u>Percentage of Total Capacity</u>
Harris County Municipal Utility District No. 70	667,000 gpd	44.47%
Harris County Municipal Utility District No. 144	333,000 gpd	22.20
Harris County Municipal Utility District No. 264	<u>500,000 gpd</u>	<u>33.33</u>
TOTAL	<u>1,500,000 gpd</u>	<u>100.00%</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 8. WASTE DISPOSAL AGREEMENT (Continued)

Effective February 15, 2012, the District implemented an Order Regulating the Introduction of Wastewater into the Sanitary Sewer System of the District (“NDWO”). In summary, the NDWO provides for testing of the waste discharged (or to be discharged) into the sanitary sewer system and for the possible imposition of fees for users that discharge non-compliant wastes. All participants in the WWTP have similar orders.

The WWTP is under the supervision of District No. 70. The following summary audited financial data on the WWTP is obtained from District No. 70 and presented for its fiscal year ended September 30, 2016.

	Special Revenue Fund
Total Assets	\$ 369,961
Total Liabilities	<u>186,103</u>
Total Fund Balance	<u>\$ 183,858</u>
Total Revenues	\$ 1,256,076
Total Expenditures	<u>1,256,076</u>
Excess of Revenues over Expenditures	\$ -0-
Other Funding Sources – Transfer in	<u>33,850</u>
Net Change in Fund Balance	\$ 33,850
Fund Balance, Beginning of Year	<u>150,008</u>
Fund Balance, End of Year	<u>\$ 183,858</u>

Each participant is billed monthly for its pro-rata share of operating costs of the WWTP and the Lift Station under the formulae set out above. For the year ended March 31, 2017, the District incurred \$218,946 in costs of operating the WWTP, and \$18,925 for the District’s share of capital improvements. The District has advanced \$63,366 to District No. 70 as an operating reserve.

NOTE 9. EMERGENCY WATER SUPPLY AGREEMENTS

The District has emergency water supply agreements (“ESA” or “ESAs”) with Harris County Municipal Utility District Nos. 208, 70, 144, and 173 and Langham Creek Utility District.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 9. EMERGENCY WATER SUPPLY AGREEMENTS (Continued)

ESA with Harris County Municipal Utility District No. 208 (District No. 208)

On June 21, 1990, the District executed an emergency water supply agreement with District No. 208 (District No. 208 ESA). The participants agree to pay for water supplied at a rate of \$1.00 per 1,000 gallons of water. The term of this agreement is 40 years. On September 21, 2001, the District executed the First Amendment to the District No. 208 ESA to provide for an additional charge per 1,000 gallons pumped equal to the amount charged by the West Harris County Regional Water Authority.

ESA with Harris County Municipal Utility District Nos. 70/144

On September 23, 1999, the District entered into a Restated Emergency Water Supply Contract with District No. 70 and Harris County Municipal Utility District No. 144 (District No. 144). The agreement superseded and specifically terminated all prior agreements among the districts, including the agreement dated August 28, 1986, (as amended on July 25, 1996), between the District and District No. 70 and the agreement dated September 6, 1995, between the District and District No. 144. On November 19, 2001, the District executed the First Amendment to the District No. 70/144 ESA to provide for the cost of the purchase of surface water as may be imposed by a regional water authority or other governmental entity. Subject to termination as specified in it, the term of the contract is for one year and continues thereafter from year to year. During the year ended March 31, 2017, the District recorded \$56,238 in expenditures under this agreement.

ESA with District No. 70

On April 26, 2001, the District entered into an emergency water supply contract with District No. 70. The first amendment to the agreement became effective January 1, 2010. The purpose of the amendment was to provide the direct interconnect between District No. 70 and the District as the primary emergency source, and to use District No. 144's connection to both the District and District No. 70 as secondary. Subject to termination as specified in it, the agreement is in effect for 50 years.

ESA with Harris County Municipal Utility District 173 ("District No. 173")

On February 3, 1993, the District and District No. 173 executed an Emergency Water Supply Contract, which was superseded and replaced by an Amended and Restated Emergency Water Supply Contract ("Current 173 ESA"), dated December 28, 2011. The Current 173 ESA documents a second point of interconnection and amends the water rate to include any fees charged by the West Harris County Regional Water Authority, in addition to the rate of \$0.65 per 1000 gallons established under the original ESA. Subject to termination as specified in it, Current 173 ESA is in effect for 40 years from May 11, 1993, the date of commencement of the original agreement.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 9. EMERGENCY WATER SUPPLY AGREEMENTS (Continued)

ESA with Langham Creek Utility District

On June 20, 2001, the District entered into an emergency water supply contract with Langham Creek Utility District (Langham ESA). Subject to termination as specified in it, the term of the contract is 50 years.

NOTE 10. WATER, SEWER AND DRAINAGE SERVICES CONTRACT

On December 20, 1984, the District executed an agreement with the Cypress-Fairbanks Independent School District (the "School District") to provide water, sewer and drainage services to a complex of facilities located outside the boundaries of the District. On January 19, 2016, the parties executed a First Amendment to the agreement which, among other things, extended the term to December 20, 2054, and from year to year thereafter.

The District will be obligated to treat sewage from the complex up to the maximum average amount of 80,000 gallons per day in accordance with the terms of the Restated Waste Disposal Agreement, (see Note 8). The District bills the School District as if it were a participant in the WWTP. Per the water supply portion of the contract, the District shall not be obligated to supply more than 96,000 gallons per day based upon a 30-day average and maintains and operates a water line installed by the School District. The School District agreed to be billed at the same rate billed an in-district single family residential user of the District.

Under the provisions attributable to drainage, the School District is entitled to drain the northern 26.3 acres of its complex into the District's drainage system. The School District is responsible for the drainage of the southern portion of its property. In prior years, the School District made certain capital contributions to the District in the amount of \$256,507 for the District's cost of the District's water plant and capacity purchased in the WWTP to benefit the School District.

NOTE 11. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the West Harris County Regional Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 11. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY (Continued)

The Authority is responsible for overseeing that its participants comply with subsidence district pumpage requirements. The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The current fee per 1,000 gallons of water pumped from each well is \$2.45. The District recorded expenditures of \$52,540 for pumpage fees assessed during the year ended March 31, 2017. In addition, the District purchased surface water from the Authority. The current cost per 1,000 gallons of surface water is \$2.85. The District recorded expenditures of \$331,816 for purchased surface water during the year ended March 31, 2017.

NOTE 12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for its fidelity bonds. The District also participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, boiler and machinery, general liability, automobile liability, pollution liability, directors and officers liability and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. There have been no reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT

The District entered into a Strategic Partnership Agreement (the "SPA") with the City of Houston, effective April 9, 2007, pursuant to Chapter 43, Texas Local Government Code. The SPA provides for a "limited purpose annexation" of portions of the District developed for retail and commercial purposes. Residential development within the District is not included in the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" for at least 30 years from the effective date of the SPA.

Under the SPA, the City is authorized to impose the one percent retail City sales tax within the portion of the District included in the limited purpose annexation. The SPA also provides that the City will pay to the District an amount equal to one-half of all retail sales tax revenues generated within such area of the District and received by the City from the Comptroller (herein defined as the "Contract Sales Tax Revenue"). During the year ended March 31, 2017, the District received \$3,081 in Contract Sales Tax Revenues.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 14. CHANGE IN PROJECT SCOPE

On December 30, 2016, the Commission approved a change in project scope for the use of \$1,492,000 from Unlimited Tax Bonds, Series 2015. The District will not use bond proceeds for water well rework or water plant ground storage tank no. 1 roof replacement, and will reduce the amount used for wastewater line televising and rehabilitation. The change in project scope will allow proceeds of the bonds to be used to finance the costs of construction and engineering for the following projects: 1) replacement of the entire water plant ground storage tank no. 1; 2) replacement of water plant motor control center; 3) replacement of lift station motor control center; and 4) a reduced amount of wastewater line televising and rehabilitation.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2017

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2017

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 515,000	\$ 561,209	\$ 46,209
Water Service	346,000	281,353	(64,647)
Wastewater Service	225,000	222,043	(2,957)
Water Authority Fees	500,000	448,139	(51,861)
Penalty and Interest	20,000	13,153	(6,847)
Miscellaneous Revenues	12,000	22,847	10,847
TOTAL REVENUES	\$ 1,618,000	\$ 1,548,744	\$ (69,256)
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 140,000	\$ 171,516	\$ (31,516)
Contracted Services	81,000	80,606	394
Purchased Wastewater Service	220,000	218,946	1,054
Utilities	61,600	58,711	2,889
Water Authority Costs	500,000	384,356	115,644
Repairs and Maintenance/Capital Outlay	215,000	281,677	(66,677)
Other	95,580	142,467	(46,887)
TOTAL EXPENDITURES	\$ 1,313,180	\$ 1,338,279	\$ (25,099)
NET CHANGE IN FUND BALANCE	\$ 304,820	\$ 210,465	\$ (94,355)
FUND BALANCE - APRIL 1, 2016	2,599,938	2,599,938	
FUND BALANCE - MARCH 31, 2017	\$ 2,904,758	\$ 2,810,403	\$ (94,355)

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

MARCH 31, 2017

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective January 1, 2016.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 10.00	5,000	N	\$ 1.25 \$ 1.50 \$ 1.75 \$ 2.00	5,001 to 20,000 20,001 to 50,000 50,001 to 100,000 100,001 and up
WASTEWATER:	\$ 15.00		Y		
SURCHARGE:					
Regional Water Authority Fees	105% of current surface water fee charged by WHCRWA				

District employs winter averaging for wastewater usage? _____ X
Yes No

Total charges per 10,000 gallons usage: Water: \$16.25 Wastewater: \$15.00 Surcharge: \$29.93

See accompanying independent auditor’s report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	<u>1,228</u>	<u>1,225</u>	x 1.0	<u>1,225</u>
1"	<u>7</u>	<u>7</u>	x 2.5	<u>18</u>
1½"			x 5.0	
2"	<u>17</u>	<u>17</u>	x 8.0	<u>136</u>
3"			x 15.0	
4"	<u>3</u>	<u>3</u>	x 25.0	<u>75</u>
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>1,255</u></u>	<u><u>1,252</u></u>		<u><u>1,454</u></u>
Total Wastewater Connections	<u><u>1,191</u></u>	<u><u>1,188</u></u>	x 1.0	<u><u>1,188</u></u>

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

Gallons pumped into system:	23,433,000	Water Accountability Ratio: 93.8%* (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	160,569,000	
Gallons purchased:	124,659,000	From: <u>West Harris County Regional Water Authority</u>
Gallons purchased:	23,000,000	From: <u>Harris County Municipal Utility District No. 144</u>

* According to the District's operator, accountability can vary according to the timing of residential and water plant meter readings. Additionally, since the District receives surface water from the West Harris County Regional Water Authority, accountability can be affected by the accuracy of the surface water meter.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2017

PROFESSIONAL FEES:	
Auditing	\$ 14,750
Engineering	81,152
Legal	<u>75,614</u>
TOTAL PROFESSIONAL FEES	<u>\$ 171,516</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 331,816
Purchased Wastewater Service	<u>218,946</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 550,762</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 18,948
Operations and Billing	<u>61,658</u>
TOTAL CONTRACTED SERVICES	<u>\$ 80,606</u>
UTILITIES:	
Electricity	\$ 56,994
Telephone	<u>1,717</u>
TOTAL UTILITIES	<u>\$ 58,711</u>
REPAIRS AND MAINTENANCE	<u>\$ 227,860</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 19,500
Insurance	16,311
Office Supplies and Postage	10,772
Payroll Taxes	1,383
Travel and Meetings	3,446
Other	<u>8,957</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 60,369</u>
CAPITAL OUTLAY	<u>\$ 53,817</u>
OTHER EXPENDITURES:	
Bulk Water Purchases	\$ 56,238
Chemicals	2,743
Laboratory Fees	12,715
Permit Fees	3,075
Inspection Fees	4,800
Water Authority Pumpage Fees	52,540
Regulatory Assessment	<u>2,527</u>
TOTAL OTHER EXPENDITURES	<u>\$ 134,638</u>
TOTAL EXPENDITURES	<u>\$ 1,338,279</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
INVESTMENTS
MARCH 31, 2017

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 2,077,337	\$
Texas CLASS	XXXX0001	Varies	Daily	<u>159,167</u>	<u> </u>
TOTAL GENERAL FUND				<u>\$ 2,236,504</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0005	Varies	Daily	<u>\$ 216,854</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u><u>\$ 2,453,358</u></u>	<u><u>\$ - 0 -</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2017

	Maintenance Taxes	Debt Service Taxes
Taxes Receivable - April 1, 2016	\$ 12,204	\$ 10,167
Adjustments to Beginning balance	576	243
	\$ 12,780	\$ 10,410
2016 Tax Levy, Including Adjustments	562,566	275,298
Total to be Accounted for	\$ 575,346	\$ 285,708
Tax Collections	561,209	274,268
Taxes Receivable - March 31, 2017	\$ 14,137	\$ 11,440
Taxes Receivable by year:		
2016	\$ 7,332	\$ 3,588
2015	1,385	609
2014	917	
2013	799	
2012	790	32
2011	817	1,470
2010	765	1,561
2009	582	1,591
2008	221	719
2007 and prior	529	1,870
Total	\$ 14,137	\$ 11,440

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2017**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
PROPERTY VALUATIONS:				
Land	\$ 44,155,025	\$ 40,464,751	\$ 37,205,217	\$ 31,245,241
Improvements	204,261,611	190,539,969	174,319,721	163,879,332
Personal Property	2,756,517	2,903,842	2,414,506	3,203,010
Exemptions	<u>(11,781,843)</u>	<u>(11,755,162)</u>	<u>(11,153,121)</u>	<u>(13,428,342)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 239,391,310</u>	<u>\$ 222,153,400</u>	<u>\$ 202,786,323</u>	<u>\$ 184,899,241</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.115	\$ 0.11	\$ 0.00	\$ 0.00
Maintenance	<u>0.235</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.350</u>	<u>\$ 0.36</u>	<u>\$ 0.25</u>	<u>\$ 0.25</u>
ADJUSTED TAX LEVY*	<u>\$ 837,864</u>	<u>\$ 799,747</u>	<u>\$ 506,962</u>	<u>\$ 462,244</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.70 %</u>	<u>99.75 %</u>	<u>99.82 %</u>	<u>99.83 %</u>

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

Maintenance Tax – Maximum tax rate of \$0.25 per \$100 of assessed valuation approved by voters on April 7, 1984.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
LONG-TERM DEBT SERVICE REQUIREMENTS
FOR THE YEAR ENDED MARCH 31, 2017**

S E R I E S - 2 0 1 5				
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total	
2018	\$ 125,000	\$ 95,826	\$	220,826
2019	130,000	93,276		223,276
2020	135,000	90,626		225,626
2021	135,000	87,926		222,926
2022	140,000	85,106		225,106
2023	145,000	82,005		227,005
2024	150,000	78,611		228,611
2025	155,000	74,912		229,912
2026	165,000	70,499		235,499
2027	170,000	65,475		235,475
2028	175,000	60,189		235,189
2029	180,000	54,643		234,643
2030	185,000	48,731		233,731
2031	195,000	42,366		237,366
2032	200,000	35,600		235,600
2033	205,000	28,384		233,384
2034	215,000	20,772		235,772
2035	220,000	12,750		232,750
2036	230,000	4,313		234,313
	\$ 3,255,000	\$ 1,132,010	\$	4,387,010

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2017

Description	Original Bonds Issued	Bonds Outstanding April 1, 2016	Current Year Transactions			Bonds Outstanding March 31, 2017	Paying Agent
			Bonds Sold	Retirements			
				Principal	Interest		
Harris County Municipal Utility District No. 264 Unlimited Tax Bonds - Series 2015	\$ 3,375,000	\$ 3,375,000	\$ - 0 -	\$ 120,000	\$ 98,276	\$ 3,255,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
Bond Authority:	Tax and/or Refunding Bonds	Park Bonds					
Amount Authorized by Voters	\$ 15,700,000	\$ 4,500,000					
Amount Issued	<u>15,700,000</u>	<u> </u>					
Remaining to be Issued	<u>\$ - 0 -</u>	<u>\$ 4,500,000</u>					
Debt Service Fund cash and investment balances as of March 31, 2017:		<u>\$ 306,302</u>					
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 230,895</u>					

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

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amounts					Percentage of Total Revenue				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
REVENUES										
Property Taxes	\$ 561,209	\$ 553,889	\$ 506,419	\$ 462,655	\$ 455,127	36.3 %	34.7 %	33.1 %	30.2 %	30.4 %
Water Service	281,353	289,432	293,344	313,855	318,787	18.2	18.2	19.2	20.4	21.2
Wastewater Service	222,043	222,459	222,367	223,965	223,635	14.3	14.0	14.6	14.6	14.9
Water Authority Fees	448,139	466,674	463,713	501,081	476,652	28.9	29.3	30.4	32.6	31.8
Penalty and Interest	13,153	16,091	27,259	18,350	17,629	0.8	1.0	1.8	1.2	1.2
Miscellaneous Revenues	22,847	43,827	13,949	16,481	8,968	1.5	2.8	0.9	1.1	0.5
TOTAL REVENUES	<u>\$ 1,548,744</u>	<u>\$ 1,592,372</u>	<u>\$ 1,527,051</u>	<u>\$ 1,536,387</u>	<u>\$ 1,500,798</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
EXPENDITURES										
Professional Fees	\$ 171,516	\$ 144,799	\$ 235,220	\$ 142,764	\$ 112,110	11.1 %	9.1 %	15.4 %	9.3 %	7.5 %
Purchased and Contracted Services	631,368	747,830	756,993	648,619	708,237	40.8	47.0	49.6	42.2	47.2
Utilities	58,711	63,152	63,089	70,008	64,501	3.8	4.0	4.1	4.6	4.3
Water Authority Pumpage Fees	52,540	33,490	26,532	57,033	12,280	3.4	2.1	1.7	3.7	0.8
Repairs and Maintenance	227,860	184,834	205,123	278,223	294,914	14.7	11.6	13.4	18.1	19.7
Other	142,467	135,669	86,069	72,511	85,878	9.2	8.5	5.6	4.7	5.7
Capital Outlay	53,817	18,192				3.5	1.1			
TOTAL EXPENDITURES	<u>\$ 1,338,279</u>	<u>\$ 1,327,966</u>	<u>\$ 1,373,026</u>	<u>\$ 1,269,158</u>	<u>\$ 1,277,920</u>	<u>86.5 %</u>	<u>83.4 %</u>	<u>89.8 %</u>	<u>82.6 %</u>	<u>85.2 %</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 210,465</u>	<u>\$ 264,406</u>	<u>\$ 154,025</u>	<u>\$ 267,229</u>	<u>\$ 222,878</u>	<u>13.5 %</u>	<u>16.6 %</u>	<u>10.2 %</u>	<u>17.4 %</u>	<u>14.8 %</u>
OTHER FINANCING SOURCES (USES)										
Transfers In(Out)	\$ - 0 -	\$ 73,695	\$ - 0 -	\$ 40,301	\$ - 0 -					
NET CHANGE IN FUND BALANCE	\$ 210,465	\$ 338,101	\$ 154,025	\$ 307,530	\$ 222,878					
BEGINNING FUND BALANCE	<u>2,599,938</u>	<u>2,261,837</u>	<u>2,107,812</u>	<u>1,800,282</u>	<u>1,577,404</u>					
ENDING FUND BALANCE	<u>\$ 2,810,403</u>	<u>\$ 2,599,938</u>	<u>\$ 2,261,837</u>	<u>\$ 2,107,812</u>	<u>\$ 1,800,282</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts					Percentage of Total Revenue				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
REVENUES										
Property Taxes	\$ 274,268	\$ 241,849	\$	\$ 1,623	\$ 33,519	98.7 %	98.5 %	%	36.3 %	81.7 %
Penalty and Interest	2,470	1,572		2,615	5,974	0.9	0.6		58.7	14.6
Miscellaneous Revenues	1,156	2,160		217	1,528	0.4	0.9		5.0	3.7
TOTAL REVENUES	<u>\$ 277,894</u>	<u>\$ 245,581</u>	<u>\$ - 0 -</u>	<u>\$ 4,455</u>	<u>\$ 41,021</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>%</u>	<u>100.0 %</u>	<u>100.0 %</u>
EXPENDITURES										
Tax Collection Expenditures	\$ 34,134	\$ 33,940	\$	\$ 23,706	\$ 30,492	12.3 %	13.8 %	%	532.1 %	74.3 %
Debt Service Principal	120,000			120,000	910,000	43.2			2,693.6	2,218.4
Debt Service Interest and Fees	98,276	71,410		2,070	19,202	35.4	29.1		46.5	46.8
TOTAL EXPENDITURES	<u>\$ 252,410</u>	<u>\$ 105,350</u>	<u>\$ - 0 -</u>	<u>\$ 145,776</u>	<u>\$ 959,694</u>	<u>90.9 %</u>	<u>42.9 %</u>	<u>%</u>	<u>3,272.2 %</u>	<u>2,339.5 %</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 25,484</u>	<u>\$ 140,231</u>	<u>\$ - 0 -</u>	<u>\$ (141,321)</u>	<u>\$ (918,673)</u>	<u>9.1 %</u>	<u>57.1 %</u>	<u>N/A %</u>	<u>(3,172.2) %</u>	<u>(2,239.5) %</u>
OTHER FINANCING SOURCES (USES)										
Transfers In	\$	\$	\$	\$ 26,960	\$					
Long-Term Debt Issued		99,476								
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ 99,476</u>	<u>\$ - 0 -</u>	<u>\$ 26,960</u>	<u>\$ - 0 -</u>					
NET CHANGE IN FUND BALANCE	\$ 25,484	\$ 239,707	\$ - 0 -	\$ (114,361)	\$ (918,673)					
BEGINNING FUND BALANCE	239,707			114,361	1,033,034					
ENDING FUND BALANCE	<u>\$ 265,191</u>	<u>\$ 239,707</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 114,361</u>					
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>1,252</u>	<u>1,250</u>	<u>1,250</u>	<u>1,248</u>	<u>1,245</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>1,188</u>	<u>1,186</u>	<u>1,183</u>	<u>1,181</u>	<u>1,178</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2017**

District Mailing Address - Harris County Municipal Utility District No. 264
c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6400

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>March 31, 2017</u>	Expense Reimbursements for the year ended <u>March 31, 2017</u>	<u>Title</u>
Russell Appelget	05/16 - 05/20 (Elected)	\$ 4,650	\$ 575	President
Jose F. Nava	05/14 - 05/18 (Elected)	\$ 3,750	\$ 404	Vice President
Charles E. Brandman	05/16 - 05/20 (Elected)	\$ 4,950	\$ 369	Assistant Vice President
Donnice Hoffman	05/14 - 05/18 (Elected)	\$ 4,050	\$ 1,879	Secretary
Thomas Winkler (resigned)	05/14 - 02/17 (Elected)	\$ 1,800	\$ 162	Assistant Secretary
Patty Rodriguez	03/17 - 05/18 (Appointed)	\$ -0-	\$ 27	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants, except as otherwise disclosed. Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): March 16, 2017.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 18, 2001. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 264
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2017

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2017</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	07/26/03	\$ 90,419	General Counsel
McCall Gibson Swedlund Barfoot PLLC	09/18/91	\$ 14,750	Auditor
District Data Services, Inc.	09/04/90	\$ 18,948	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/06/96	\$ 481	Delinquent Tax Attorney
Jones & Carter, Inc.	03/22/84	\$ 306,540	Engineer
First Southwest, a Division of Hilltop Securities Inc.	03/22/84	\$ -0-	Financial Advisor
Wendy Austin	10/18/06	\$ -0-	Investment Officer
Stephanie Viator	10/18/06	\$ -0-	Investment Officer
Severn Trent Services, Inc.	02/20/97	\$ 347,996	Operator
Wheeler & Associates, Inc.	04/26/84	\$ 25,511	Tax Assessor/ Collector

See accompanying independent auditor's report.

