

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2018

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 53
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. 53 (the "District"), as of and for the year ended May 31, 2018, 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 May 31, 2018, 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

September 11, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

Management’s discussion and analysis of Harris County Municipal Utility District No. 53’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended May 31, 2018. 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 financial statements provide 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 Statement of Net Position includes all of the District’s assets, liabilities, and, if applicable, deferred inflows of resources and deferred outflows of resources 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 Statement of Activities reports how the District’s net position changed during the current fiscal 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 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.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

FUND FINANCIAL STATEMENTS (Continued)

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 funds. 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 and deferred outflows of resources exceeded liabilities by \$26,351,458 as of May 31, 2018. A portion of the District's net position reflects its net investment in capital assets (land, buildings and the District's capacity in the NCWA facilities as well as water, wastewater, drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 14,480,924	\$ 16,032,509	\$ (1,551,585)
Capital Assets (Net of Accumulated Depreciation)	<u>28,271,854</u>	<u>27,420,740</u>	<u>851,114</u>
Total Assets	<u>\$ 42,752,778</u>	<u>\$ 43,453,249</u>	<u>\$ (700,471)</u>
Deferred Outflows of Resources	\$ 341,762	\$ 455,787	\$ (114,025)
Due to Developer	\$ 140,000	\$	\$ (140,000)
Bonds Payable	15,318,970	18,243,638	2,924,668
Other Liabilities	<u>1,284,112</u>	<u>1,382,052</u>	<u>97,940</u>
Total Liabilities	<u>\$ 16,743,082</u>	<u>\$ 19,625,690</u>	<u>\$ 2,882,608</u>
Net Position:			
Net Investment in Capital Assets	\$ 13,307,059	\$ 9,744,147	\$ 3,562,912
Restricted	4,952,584	5,095,896	(143,312)
Unrestricted	<u>8,091,815</u>	<u>9,443,303</u>	<u>(1,351,488)</u>
Total Net Position	<u>\$ 26,351,458</u>	<u>\$ 24,283,346</u>	<u>\$ 2,068,112</u>

The following table provides a summary of the District's operations for the years ending May 31, 2018, and May 31, 2017.

	<u>Summary of Changes in the Statement of Activities</u>		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 4,696,313	\$ 4,759,101	\$ (62,788)
Charges for Services	1,849,557	1,772,147	77,410
Other Revenues	<u>719,733</u>	<u>665,524</u>	<u>54,209</u>
Total Revenues	<u>\$ 7,265,603</u>	<u>\$ 7,196,772</u>	<u>\$ 68,831</u>
Expenses for Services	<u>5,197,491</u>	<u>5,456,076</u>	<u>258,585</u>
Change in Net Position	\$ 2,068,112	\$ 1,740,696	\$ 327,416
Net Position, Beginning of Year	<u>24,283,346</u>	<u>22,542,650</u>	<u>1,740,696</u>
Net Position, End of Year	<u>\$ 26,351,458</u>	<u>\$ 24,283,346</u>	<u>\$ 2,068,112</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of May 31, 2018, were \$12,828,766, a decrease of \$1,515,109 from the prior year.

The General Fund fund balance decreased by \$1,348,423, primarily due to operating and capital costs exceeding service and tax revenues.

The Debt Service Fund fund balance decreased by \$167,674, primarily due to the structure of the District's outstanding debt service requirements.

The Capital Projects Fund fund balance increased by \$988.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$201,843 higher than budgeted revenues primarily due to higher than anticipated property tax, water service, sales tax and investment revenues. Actual expenditures were \$58,734 lower than budgeted expenditures primarily due to less than anticipated contracted services, purchased water and wastewater services and repairs and maintenance costs, offset by higher than anticipated professional fees and capital costs.

LONG-TERM DEBT ACTIVITY

As of May 31, 2018, the District had total bond debt payable of \$15,075,000. The changes in the debt position of the District during the fiscal year ended May 31, 2018, are summarized as follows:

Bond Debt Payable, June 1, 2017	\$ 17,910,000
Less: Bond Principal Paid	<u>2,835,000</u>
Bond Debt Payable, May 31, 2018	<u>\$ 15,075,000</u>

The District maintains an underlying rating of A. The Series 2012 bonds carry an insured rating of AA by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2013 refunding bonds carry an insured rating of AA by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2014 refunding bonds carry an insured rating of AA by virtue of bond insurance issued by Municipal Assurance Corp. The above ratings are as of May 31, 2018, and reflect all rating changes through the fiscal year-end.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2018**

CAPITAL ASSETS

Capital assets as of May 31, 2018, total \$28,271,854 (net of accumulated depreciation) and include land, buildings, capacity in the NWCW facilities, and the water, wastewater and drainage systems. Significant capital asset activity during the current fiscal year included the Wallisville water line and easement acquisitions, Blackrock water plant-HPT coating, Sterling Green South lift station pump, water line and sanitary sewer line extension, regional wastewater treatment plant electrical improvements and Rancho Verde, section 9 water, wastewater and drainage facilities.

Capital Assets At Year-End, Net of Accumulated Depreciation

	<u>2018</u>	<u>2017</u>	<u>Change Positive (Negative)</u>
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 2,274,746	\$ 535,195	\$ 1,739,551
Construction in Progress	383,695	200,497	183,198
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	222,599	235,048	(12,449)
North Channel Water Authority Capacity	307,955	338,806	(30,851)
Water System	5,127,782	5,426,977	(299,195)
Wastewater System	18,761,264	19,451,358	(690,094)
Drainage System	<u>1,193,813</u>	<u>1,232,859</u>	<u>(39,046)</u>
Total Net Capital Assets	<u>\$ 28,271,854</u>	<u>\$ 27,420,740</u>	<u>\$ 851,114</u>

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the 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. 53, c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Blvd., Suite 1380, Houston, Texas 77056.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 246,395	\$ 216,459
Investments	8,501,220	4,518,883
Receivables:		
Property Taxes	89,436	204,266
Penalty and Interest on Delinquent Taxes		
Service Accounts	153,828	
Accrued Interest	31,034	13,403
Other	63	
Due from Other Funds	10,724	782
Due from the City of Houston	137,432	
Prepaid Costs		
Advance for Water Authority Operations	76,999	
Advance for Wastewater Treatment		
Plant Operations	42,808	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 9,289,939	\$ 4,953,793
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 9,289,939	\$ 4,953,793

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 100	\$ 462,954	\$	\$ 462,954
112,146	13,132,249		13,132,249
	293,702		293,702
		119,954	119,954
	153,828		153,828
	44,437		44,437
	63		63
	11,506	(11,506)	
	137,432		137,432
		16,498	16,498
	76,999		76,999
	42,808		42,808
		2,274,746	2,274,746
		383,695	383,695
		25,613,413	25,613,413
\$ 112,246	\$ 14,355,978	\$ 28,396,800	\$ 42,752,778
\$ -0-	\$ -0-	\$ 341,762	\$ 341,762
\$ 112,246	\$ 14,355,978	\$ 28,738,562	\$ 43,094,540

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2018

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 473,299	\$
Accrued Interest Payable		
Due to Developer	40,167	
Due to Other Funds	782	10,724
Due to Taxpayers		8,164
Security Deposits	700,374	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 1,214,622	\$ 18,888
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 89,436	\$ 204,266
FUND BALANCES		
Nonspendable:		
Water Authority Operating Advance	\$ 76,999	\$
Wastewater Treatment Plant Operating Advance	42,808	
Restricted for Authorized Construction		
Restricted for Debt Service		4,730,639
Assigned to 2019 Budget Deficit	437,838	
Unassigned	7,428,236	
TOTAL FUND BALANCES	\$ 7,985,881	\$ 4,730,639
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 9,289,939	\$ 4,953,793
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 473,299	\$	\$ 473,299
		102,275	102,275
	40,167	99,833	140,000
	11,506	(11,506)	
	8,164		8,164
	700,374		700,374
		2,910,000	2,910,000
		12,408,970	12,408,970
<u>\$ -0-</u>	<u>\$ 1,233,510</u>	<u>\$ 15,509,572</u>	<u>\$ 16,743,082</u>
<u>\$ -0-</u>	<u>\$ 293,702</u>	<u>\$ (293,702)</u>	<u>\$ -0-</u>
\$	\$ 76,999	\$ (76,999)	\$
	42,808	(42,808)	
112,246	112,246	(112,246)	
	4,730,639	(4,730,639)	
	437,838	(437,838)	
	7,428,236	(7,428,236)	
<u>\$ 112,246</u>	<u>\$ 12,828,766</u>	<u>\$ (12,828,766)</u>	<u>\$ -0-</u>
<u>\$ 112,246</u>	<u>\$ 14,355,978</u>		
		\$ 13,307,059	\$ 13,307,059
		4,952,584	4,952,584
		8,091,815	8,091,815
		<u>\$ 26,351,458</u>	<u>\$ 26,351,458</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MAY 31, 2018

Total Fund Balances - Governmental Funds \$ 12,828,766

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

Prepaid bond insurance costs are amortized over the term of the debt in governmental activities. 16,498

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the new debt or the old debt, whichever is shorter. 341,762

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 28,271,854

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District. 413,656

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:

Due to Developer	\$ (99,833)	
Accrued Interest Payable	(102,275)	
Bonds Payable	<u>(15,318,970)</u>	<u>(15,521,078)</u>

Total Net Position - Governmental Activities \$ 26,351,458

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 1,560,012	\$ 3,133,973
Water Service	1,120,679	
Wastewater Service	585,729	
Penalty and Interest	44,398	75,660
Tap Connection and Inspection Fees	11,871	
Sales Tax Revenues	556,663	
Investment Revenues	68,748	31,084
Miscellaneous Revenues	59,952	1,643
	<u>\$ 4,008,052</u>	<u>\$ 3,242,360</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 392,311	\$ 24,503
Contracted Services	465,532	98,969
Purchased Water Service	1,351,569	
Purchased Wastewater Service	497,342	
Utilities	321,647	
Repairs and Maintenance	276,546	
Depreciation		
Other	158,192	8,662
Capital Outlay	1,893,336	
Debt Service:		
Bond Principal		2,835,000
Bond Interest		442,900
	<u>\$ 5,356,475</u>	<u>\$ 3,410,034</u>
TOTAL EXPENDITURES/EXPENSES		
NET CHANGE IN FUND BALANCES	\$ (1,348,423)	\$ (167,674)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JUNE 1, 2017	<u>9,334,304</u>	<u>4,898,313</u>
FUND BALANCES/NET POSITION - MAY 31, 2018	<u>\$ 7,985,881</u>	<u>\$ 4,730,639</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 4,693,985	\$ 2,328	\$ 4,696,313
	1,120,679		1,120,679
	585,729		585,729
	120,058	11,220	131,278
	11,871		11,871
	556,663		556,663
1,643	101,475		101,475
	61,595		61,595
\$ 1,643	\$ 7,252,055	\$ 13,548	\$ 7,265,603
\$	\$ 416,814	\$	\$ 416,814
655	565,156		565,156
	1,351,569		1,351,569
	497,342		497,342
	321,647		321,647
	276,546	34,300	310,846
		1,107,755	1,107,755
	166,854		166,854
	1,893,336	(1,893,336)	
	2,835,000	(2,835,000)	
	442,900	16,608	459,508
\$ 655	\$ 8,767,164	\$ (3,569,673)	\$ 5,197,491
\$ 988	\$ (1,515,109)	\$ 1,515,109	\$
		2,068,112	2,068,112
111,258	14,343,875	9,939,471	24,283,346
\$ 112,246	\$ 12,828,766	\$ 13,522,692	\$ 26,351,458

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2018**

Net Change in Fund Balances - Governmental Funds \$ (1,515,109)

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

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. 2,328

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. 11,220

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. (1,107,755)

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. 1,859,036

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. 2,835,000

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. (16,608)

Change in Net Position - Governmental Activities \$ 2,068,112

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 53 (the “District”) of Harris County, Texas was created by an Order of the Texas Water Rights Commission effective May 30, 1973, presently 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, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or 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 July 24, 1973, and the first bonds were sold on December 13, 1976.

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 has entered into a joint venture with Harris County Fresh Water Supply District No. 51 (District No. 51) and Harris County Water Control and Improvement District No. 36 (District No. 36) for wastewater disposal through a regional wastewater treatment plant. District No. 51 has oversight responsibility of the plant. See Note 8 for additional disclosure.

The District also participates in the North Channel Water Authority regional water production facilities. See Note 9 for additional disclosure.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

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

The 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 assets 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 assets 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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 by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

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 Balances.

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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 inflows of resources related to property 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 or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of May 31, 2018, the Debt Service Fund owed the General Fund \$10,724 for maintenance tax collections and the General Fund owed the Debt Service Fund \$782 for interest income deposited into the General Fund in error.

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 \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 in governmental funds are classified 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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. As of May 31, 2018, the District has assigned \$437,838 of the General Fund fund balance to use for a projected budget deficit for the fiscal year ending May 31, 2019.

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.

NOTE 3. LONG-TERM DEBT

	Series 2012	Refunding Series 2013	Refunding Series 2014
Amount Outstanding – May 31, 2018	\$2,920,000	\$7,530,000	\$4,625,000
Interest Rates	3.00%	2.00%	3.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2022/2024	September 1, 2018/2020	September 1, 2018/2021
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2019 (1)	Non-callable	Non-callable

(1) Or on any date thereafter callable at par plus unpaid accrued interest from the most recent interest payment date to the date of redemption.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended May 31, 2018:

	June 1, 2017	Additions	Retirements	May 31, 2018
Bonds Payable	\$ 17,910,000	\$	\$ 2,835,000	\$ 15,075,000
Unamortized Discounts	(51,102)		(6,739)	(44,363)
Unamortized Premiums	384,740		96,407	288,333
Bonds Payable, Net	\$ 18,243,638	\$ -0-	\$ 2,924,668	\$ 15,318,970
		Amount Due Within One Year		\$ 2,910,000
		Amount Due After One Year		12,408,970
		Bonds Payable, Net		\$ 15,318,970

As of May 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 2,910,000	\$ 377,625	\$ 3,287,625
2020	2,980,000	314,000	3,294,000
2021	3,050,000	249,025	3,299,025
2022	3,215,000	151,900	3,366,900
2023	920,000	73,800	993,800
2024-2025	2,000,000	60,750	2,060,750
	\$ 15,075,000	\$ 1,227,100	\$ 16,302,100

As of May 31, 2018, the District had authorized but unissued bonds in the amount of \$20,200,000 for acquiring and constructing water, sewer and drainage systems and authorized but unissued bonds in the amount of \$16,850,000 for refunding purposes.

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, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

During the year ended May 31, 2018, the District levied an ad valorem debt service tax rate of \$0.40 per \$100 of assessed valuation, which resulted in a tax levy of \$3,143,057 on the adjusted taxable valuation of \$785,764,171 for the 2017 tax year. The bond resolutions require 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The District's tax calendar is as follows:

Lien Date - January 1.

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

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 RESOLUTION 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 proceeds of the Bonds, 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 issue.

The bond resolutions state 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 fiscal year of the District.

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 \$11,612,954 and the bank balance was \$11,635,053. The District was not exposed to custodial credit risk at year-end.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at May 31, 2018, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 246,395	\$ 8,000,000	\$ 8,246,395
DEBT SERVICE FUND	216,459	3,150,000	3,366,459
CAPITAL PROJECTS FUND	100		100
TOTAL DEPOSITS	\$ 462,954	\$ 11,150,000	\$ 11,612,954

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. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District records its investments in certificates of deposit at amortized cost. The District also invests in Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), a public funds investment pool. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor and Wells Fargo Bank, N.A., serves as the custodian for the pool. Texas CLASS is subject to the general supervision of the Board of Trustees and its Advisory Board, both of which are elected by the Texas CLASS participants. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. There are no limitations or restrictions on withdrawals from Texas CLASS.

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 501,220	\$ 501,220
Certificates of Deposit	8,000,000	8,000,000
<u>DEBT SERVICE FUND</u>		
Texas CLASS	1,368,883	1,368,883
Certificates of Deposit	3,150,000	3,150,000
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	112,146	112,146
TOTAL INVESTMENTS	\$ 13,132,249	\$ 13,132,249

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by primarily investing in certificates of deposit with balances below FDIC coverage. At May 31, 2018, the District’s investments in 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 manages interest rate risk by primarily investing in certificates of deposit with maturities of less than one year. The District considers the investments in Texas CLASS to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2018:

	June 1, 2017	Increases	Decreases	May 31, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 535,195	\$ 1,739,551	\$	\$ 2,274,746
Construction in Progress	<u>200,497</u>	<u>219,318</u>	<u>36,120</u>	<u>383,695</u>
Total Capital Assets Not Being Depreciated	<u>\$ 735,692</u>	<u>\$ 1,958,869</u>	<u>\$ 36,120</u>	<u>\$ 2,658,441</u>
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 374,973	\$	\$	\$ 374,973
North Channel Water Authority Capacity	1,147,278			1,147,278
Water System	10,866,507	21,200		10,887,707
Wastewater System	32,171,763	14,920		32,186,683
Drainage System	<u>1,748,276</u>			<u>1,748,276</u>
Total Capital Assets Subject to Depreciation	<u>\$ 46,308,797</u>	<u>\$ 36,120</u>	<u>\$ -0-</u>	<u>\$ 46,344,917</u>
Accumulated Depreciation				
Buildings and Improvements	\$ 139,925	\$ 12,449	\$	\$ 152,374
North Channel Water Authority Capacity	808,472	30,851		839,323
Water System	5,439,530	320,395		5,759,925
Wastewater System	12,720,405	705,014		13,425,419
Drainage System	<u>515,417</u>	<u>39,046</u>		<u>554,463</u>
Total Accumulated Depreciation	<u>\$ 19,623,749</u>	<u>\$ 1,107,755</u>	<u>\$ -0-</u>	<u>\$ 20,731,504</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 26,685,048</u>	<u>\$ (1,071,635)</u>	<u>\$ -0-</u>	<u>\$ 25,613,413</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 27,420,740</u>	<u>\$ 887,234</u>	<u>\$ 36,120</u>	<u>\$ 28,271,854</u>

NOTE 7. MAINTENANCE TAX

On January 15, 1977, the voters of the District approved the levy and collection of a maintenance tax of not more than \$0.25 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system. During the year ended May 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.20 per \$100 of assessed valuation, which resulted in a tax levy of \$1,571,528 on the adjusted taxable valuation of \$785,764,171 for the 2017 tax year.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 8. REGIONAL WASTEWATER TREATMENT PLANT

On June 10, 1974, the District entered into a contract with Harris County Fresh Water Supply District No. 51 (District No. 51) and Harris County Water Control and Improvement District No. 36 (District No. 36) for the financing, construction and operation of a regional wastewater treatment facility to be operated by District No. 51. In subsequent agreements this contract was modified to meet the additional capacity requirements of the districts. Pursuant to an addendum dated October 7, 1985, the District is exclusively entitled to and guaranteed capacity of 2,250,000 gpd of the 6,300,000 gpd facility. On May 1, 2004, the districts approved an amendment to this agreement to provide for the allocation of costs related to the operation and maintenance of the facilities and to provide for the construction of improvements to the wastewater transmission facilities by District No. 36 and District No. 51. The District participated in the agreement solely with respect to facilitating the contract amendments for District Nos. 36 and 51. Separate financial statements may be obtained by contacting the District's attorney, Sanford Kuhl Hagan Kugle Parker Kahn LLP. The participating districts and their respective pro rata share of capacity in the regional wastewater treatment plant are:

	Gallons-per-day Capacity	Percentage
Harris County Municipal Utility District No. 53	2,250,000	35.71%
Harris County Water Control and Improvement District No. 36	1,500,000	23.81
Harris County Fresh Water Supply District No. 51	2,550,000	40.48
TOTAL	6,300,000	100.00%

Each participant is responsible only for its share of the operating costs of the Plant which are allocated and billed monthly based upon each participant's pro rata share of monthly water production. The District's advance for operations and maintenance of the regional wastewater treatment plant is \$42,808 and the District recorded total expenditures of \$497,342 as its share of the operating costs of the plant.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 8. REGIONAL WASTEWATER TREATMENT PLANT (Continued)

The following summary financial data for the regional wastewater treatment plant is presented for the fiscal year ending June 30, 2017:

	Joint Venture
Total Assets	\$ 292,911
Total Liabilities	<u>173,033</u>
Total Fund Balance	<u>\$ 119,878</u>
Total Revenues	\$ 1,249,348
Total Expenditures	<u>1,249,348</u>
Net Change in Fund Balance	\$ -0-
Beginning Fund Balance	<u>119,878</u>
Ending Fund Balance	<u>\$ 119,878</u>

NOTE 9. WATER SUPPLY CONTRACT - NORTH CHANNEL WATER AUTHORITY

On January 31, 1991, the District entered into a Regional Water Supply Contract with the North Channel Water Authority (Authority) agreeing to participate in a plan whereby the Authority purchases treated surface water from the City of Houston. This will enable the District to meet the requirements of the Harris-Galveston Subsidence District (HGSD) for conversion to 80% surface water. This contract was restated on March 1, 2001. The Authority's plan also anticipates possible additional acquisitions of surface water and construction of additional water distribution lines in the future that will enable the District to remain in compliance with HGSD requirements through the year 2020. The Authority is the owner and operator of the system.

This contract will remain in effect until December 31, 2028, and thereafter from year-to-year until payment in full of the principal, premium, if any, and interest on all bonds and all related fees to be paid under any bond resolution or indenture securing the bonds.

The Authority issued bonds for the purpose of financing the capital costs of the initial project. The District chose to contribute cash in lieu of participating in the bond financing. In return for its contractual share of the capital costs of the system, the District acquired 2,200,000 gallons-per-day capacity in the Authority's surface water distribution system. In addition, the District pays its pro rata share of any special project related to the facilities.

During the current fiscal year, the District incurred costs of \$1,351,569 with respect to this contract. As of May 31, 2018, the District had a reserve with the Authority in the amount of \$76,999. Separate financial statements may be obtained by contacting the Authority's attorney, Sanford Kuhl Hagan Kugle Parker Kahn LLP. The following summary financial data of the Authority is presented for the year ending December 31, 2017.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 9. WATER SUPPLY CONTRACT - NORTH CHANNEL WATER AUTHORITY (Continued)

	Joint Venture
Total Assets	\$ 18,741,924
Total Liabilities	<u>9,122,312</u>
Net Position	<u>\$ 9,619,612</u>
Operating Revenues	\$ 9,684,545
Operating Expenses	<u>9,052,341</u>
Operating Income	\$ 632,204
Non-Operating Revenues (Expenses)	<u>(400,412)</u>
Change in Net Position	\$ 231,792
Net Position - Beginning of Year	<u>9,387,820</u>
Net Position - End of Year	<u>\$ 9,619,612</u>

NOTE 10. EMERGENCY WATER SUPPLY AGREEMENTS

On October 20, 1997, the District entered into an emergency water supply contract with Harris County Fresh Water Supply District No. 51. A first amendment to the contract was executed to extend the term to December 31, 2018. The interconnect facilities were constructed prior to this agreement. The price to be paid for water furnished under this agreement is at a rate equal to the supplying party's cost to supply the water.

On September 12, 2006, the District entered into an Emergency Water Supply Contract with Harris County Water Control and Improvement District No. 84 (District No. 84). A first amendment to the contract was executed to extend the term to August 11, 2025. District No. 84 is responsible for the installation and construction of all necessary facilities at the point of connection and is responsible for maintenance of such facilities. The using party will be charged the current North Channel Water Authority rate per 1,000 gallons plus \$0.50 per 1,000 gallons.

NOTE 11. WATER SUPPLY AND WASTE TRANSPORTATION AGREEMENT

On July 2, 1991, the District entered into a Water Supply and Waste Transportation Agreement with Harris County Water Control and Improvement District No. 36 for the purpose of providing potable water and sewer service to a 3.8183-acre tract of land within District No. 36. A first amendment to this agreement was approved December 1, 2003, allowing District No. 36 to provide water originally supplied by the District to Harris County Fresh Water Supply District No. 47 on an emergency basis.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2018

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 for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT

Effective May 3, 2007, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. The agreement was amended on November 16, 2012. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the “Tract” for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Tract within the boundaries of the District. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District.

The City imposes a Sales and Use Tax within the boundaries of the Tract at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City pays the District one-half of all Sales and Use Tax revenues generated within the boundaries of the Tract. The City delivers to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Comptroller’s office. During the fiscal year ended May 31, 2018, the District recorded sales tax revenues of \$556,663, of which \$137,432 was receivable as of the fiscal year end. The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the agreement.

NOTE 14. UNREIMBURSED COSTS

The District executed a financing agreement with a Developer which calls for the Developer to fund costs associated with the construction of public infrastructure located within the District. Reimbursement for the infrastructure costs will come from operating or construction funds to the extent approved by the Commission.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53

REQUIRED SUPPLEMENTARY INFORMATION

MAY 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 1,421,719	\$ 1,560,012	\$ 138,293
Water Service	1,079,584	1,120,679	41,095
Wastewater Service	588,251	585,729	(2,522)
Penalty and Interest	48,000	44,398	(3,602)
Tap Connection and Inspection Fees	23,000	11,871	(11,129)
Sales Tax Revenues	532,000	556,663	24,663
Investment Revenues	50,405	68,748	18,343
Miscellaneous Revenues	63,250	59,952	(3,298)
TOTAL REVENUES	\$ 3,806,209	\$ 4,008,052	\$ 201,843
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 262,500	\$ 392,311	\$ (129,811)
Contracted Services	504,000	465,532	38,468
Purchased Water Service	1,406,787	1,351,569	55,218
Purchased Wastewater Service	600,000	497,342	102,658
Utilities	302,600	321,647	(19,047)
Repairs and Maintenance	351,565	276,546	75,019
Other	167,225	158,192	9,033
Capital Outlay	1,820,532	1,893,336	(72,804)
TOTAL EXPENDITURES	\$ 5,415,209	\$ 5,356,475	\$ 58,734
NET CHANGE IN FUND BALANCE	\$ (1,609,000)	\$ (1,348,423)	\$ 260,577
FUND BALANCE - JUNE 1, 2017	9,334,304	9,334,304	
FUND BALANCE - MAY 31, 2018	\$ 7,725,304	\$ 7,985,881	\$ 260,577

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MAY 31, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2018

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved March 9, 2010.

	<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:	\$ 8.00	3,000	N	\$ 1.25 \$ 1.50 \$ 2.00	3,001 to 6,000 6,001 to 10,000 10,001 and up
WASTEWATER:	\$ 8.00		Y		

SURCHARGE:

Commission 0.5% of actual water and
 Regulatory sewer bill
 Assessment

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$17.75 Wastewater: \$8.00 Surcharge: \$0.13 Total: \$25.88

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2018

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>5,481</u>	<u>5,411</u>	x 1.0	<u>5,411</u>
1"	<u>42</u>	<u>42</u>	x 2.5	<u>105</u>
1½"	<u>4</u>	<u>4</u>	x 5.0	<u>20</u>
2"	<u>25</u>	<u>25</u>	x 8.0	<u>200</u>
3"	<u>4</u>	<u>4</u>	x 15.0	<u>60</u>
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"	<u>5</u>	<u>5</u>	x 50.0	<u>250</u>
8"	<u>3</u>	<u>3</u>	x 80.0	<u>240</u>
10"			x 115.0	
Total Water Connections	<u><u>5,566</u></u>	<u><u>5,496</u></u>		<u><u>6,336</u></u>
Total Wastewater Connections	<u><u>5,519</u></u>	<u><u>5,449</u></u>	x 1.0	<u><u>5,449</u></u>

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

Gallons billed to customers:	482,377,000	Water Accountability Ratio: 89% (Gallons billed/Gallons pumped and purchased)
Gallons pumped:	18,527,000	
Gallons purchased:	523,280,000	From: North Channel Water Authority

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2018

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. 53
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2018

PROFESSIONAL FEES:	
Auditing	\$ 18,500
Engineering	135,034
Legal	202,777
Facility Manager	36,000
TOTAL PROFESSIONAL FEES	<u>\$ 392,311</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 1,351,569
Purchased Wastewater Service	497,342
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 1,848,911</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 33,362
Operations and Billing	432,170
TOTAL CONTRACTED SERVICES	<u>\$ 465,532</u>
UTILITIES:	
Electricity	\$ 319,393
Telephone	2,254
TOTAL UTILITIES	<u>\$ 321,647</u>
REPAIRS AND MAINTENANCE	<u>\$ 276,546</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 34,650
Dues	2,695
Election Costs	3,256
Insurance	40,615
Office Supplies and Postage	4,064
Payroll Taxes and Administration	5,405
Travel and Meetings	9,498
Other	4,406
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 104,589</u>
CAPITAL OUTLAY	<u>\$ 1,893,336</u>
TAP CONNECTIONS	<u>\$ 8,603</u>
OTHER EXPENDITURES:	
Chemicals	\$ 1,665
Laboratory Fees	10,766
Permit Fees	15,957
Regulatory Assessment	8,287
Other	8,325
TOTAL OTHER EXPENDITURES	<u>\$ 45,000</u>
TOTAL EXPENDITURES	<u>\$ 5,356,475</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
INVESTMENTS
MAY 31, 2018

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 501,220	\$
Certificate of Deposit	XXXX8239	0.95%	08/11/18	500,000	2,577
Certificate of Deposit	XXXX7382	0.95%	10/22/18	500,000	2,043
Certificate of Deposit	XXXX7358	0.95%	09/25/18	500,000	2,043
Certificate of Deposit	XXXX3920	0.51%	06/07/18	500,000	2,494
Certificate of Deposit	XXXX5246	0.63%	07/01/18	500,000	2,313
Certificate of Deposit	XXXX1185	1.28%	01/08/19	1,000,000	3,787
Certificate of Deposit	XXXX2255	1.28%	11/26/18	500,000	2,718
Certificate of Deposit	XXXX8417	1.27%	12/27/18	1,500,000	6,263
Certificate of Deposit	XXXX4059	1.30%	04/22/19	500,000	730
Certificate of Deposit	XXXX0286	1.35%	03/29/19	500,000	1,165
Certificate of Deposit	XXXX4138	1.35%	02/17/19	500,000	1,905
Certificate of Deposit	XXXX6075	1.35%	02/28/19	500,000	1,701
Certificate of Deposit	XXXX0697	1.35%	03/23/19	500,000	1,295
TOTAL GENERAL FUND				<u>\$ 8,501,220</u>	<u>\$ 31,034</u>
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0002	Varies	Daily	\$ 1,368,883	\$
Certificate of Deposit	XXXX0330	2.00%	02/28/19	200,000	11
Certificate of Deposit	XXXX0433	1.20%	08/15/18	245,000	975
Certificate of Deposit	XXXX7378	1.12%	08/13/18	245,000	1,496
Certificate of Deposit	XXXX0562	1.35%	08/03/18	245,000	2,410
Certificate of Deposit	XXXX9027	1.22%	08/14/18	500,000	2,273
Certificate of Deposit	XXXX7441	1.20%	08/15/18	245,000	975
Certificate of Deposit	XXXX1976	1.00%	08/15/18	245,000	812
Certificate of Deposit	XXXX4266	0.95%	08/15/18	245,000	772
Certificate of Deposit	XXXX9075	0.95%	08/15/18	245,000	771
Certificate of Deposit	XXXX5764	0.90%	08/15/18	245,000	731
Certificate of Deposit	XXXX0247	0.90%	08/10/18	245,000	1,202
Certificate of Deposit	XXXX9154	1.20%	08/15/18	245,000	975
TOTAL DEBT SERVICE FUND				<u>\$ 4,518,883</u>	<u>\$ 13,403</u>
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	\$ 7,976	\$
Texas CLASS	XXXX0004	Varies	Daily	99,413	
Texas CLASS	XXXX0005	Varies	Daily	4,757	
TOTAL CAPITAL PROJECTS FUND				<u>\$ 112,146</u>	<u>\$ -0-</u>
TOTAL - ALL FUNDS				<u>\$ 13,132,249</u>	<u>\$ 44,437</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2018

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JUNE 1, 2017	\$	83,350		\$ 208,024
Adjustments to Beginning				
Balance		<u>(5,430)</u>	\$ 77,920	<u>(12,842)</u> \$ 195,182
Original 2017 Tax Levy	\$	1,455,466		\$ 2,910,933
Adjustment to 2017 Tax Levy		<u>116,062</u>	<u>1,571,528</u>	<u>232,124</u> <u>3,143,057</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 1,649,448		\$ 3,338,239
TAX COLLECTIONS:				
Prior Years	\$	32,416		\$ 78,782
Current Year		<u>1,527,596</u>	<u>1,560,012</u>	<u>3,055,191</u> <u>3,133,973</u>
TAXES RECEIVABLE -				
MAY 31, 2018		<u>\$ 89,436</u>		<u>\$ 204,266</u>
TAXES RECEIVABLE BY				
YEAR:				
2017	\$	43,932		\$ 87,866
2016		16,487		37,920
2015		7,311		19,741
2014		4,623		14,099
2013		4,298		11,461
2012 and prior		<u>12,785</u>		<u>33,179</u>
TOTAL	\$	<u>89,436</u>		<u>\$ 204,266</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2018

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 189,380,539	\$ 167,335,539	\$ 128,547,415	\$ 119,355,463
Improvements	665,913,638	623,694,773	588,377,966	524,780,223
Personal Property	28,426,038	29,407,922	31,307,694	31,245,163
Exemptions	(97,956,044)	(96,335,318)	(84,357,535)	(68,432,119)
TOTAL PROPERTY VALUATIONS	\$ 785,764,171	\$ 724,102,916	\$ 663,875,540	\$ 606,948,730
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.40	\$ 0.46	\$ 0.54	\$ 0.61
Maintenance	0.20	0.20	0.20	0.20
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.60	\$ 0.66	\$ 0.74	\$ 0.81
ADJUSTED TAX LEVY*	\$ 4,714,585	\$ 4,779,080	\$ 4,912,680	\$ 4,916,286
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	97.20 %	98.86 %	99.45 %	99.62 %

* Based upon the 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 January 15, 1977.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2018

S E R I E S - 2 0 1 2

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$	\$ 87,600	\$ 87,600
2020		87,600	87,600
2021		87,600	87,600
2022		87,600	87,600
2023	920,000	73,800	993,800
2024	975,000	45,375	1,020,375
2025	<u>1,025,000</u>	<u>15,375</u>	<u>1,040,375</u>
	<u>\$ 2,920,000</u>	<u>\$ 484,950</u>	<u>\$ 3,404,950</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2018

REFUNDING SERIES - 2013

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 2,435,000	\$ 126,250	\$ 2,561,250
2020	2,510,000	76,800	2,586,800
2021	2,585,000	25,850	2,610,850
2022			
2023			
2024			
2025			
	<u>\$ 7,530,000</u>	<u>\$ 228,900</u>	<u>\$ 7,758,900</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2018

REFUNDING SERIES - 2014

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 475,000	\$ 163,775	\$ 638,775
2020	470,000	149,600	619,600
2021	465,000	135,575	600,575
2022	3,215,000	64,300	3,279,300
2023			
2024			
2025			
	<u>\$ 4,625,000</u>	<u>\$ 513,250</u>	<u>\$ 5,138,250</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending May 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 2,910,000	\$ 377,625	\$ 3,287,625
2020	2,980,000	314,000	3,294,000
2021	3,050,000	249,025	3,299,025
2022	3,215,000	151,900	3,366,900
2023	920,000	73,800	993,800
2024	975,000	45,375	1,020,375
2025	1,025,000	15,375	1,040,375
	<u>\$ 15,075,000</u>	<u>\$ 1,227,100</u>	<u>\$ 16,302,100</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MAY 31, 2018

Description	Original Bonds Issued	Bonds Outstanding June 1, 2017
Harris County Municipal Utility District No. 53 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2012	\$ 2,920,000	\$ 2,920,000
Harris County Municipal Utility District No. 53 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2013	9,525,000	9,275,000
Harris County Municipal Utility District No. 53 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2014	<u>5,795,000</u>	<u>5,715,000</u>
TOTAL	<u><u>\$ 18,240,000</u></u>	<u><u>\$ 17,910,000</u></u>

Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 80,400,000	\$ 35,250,000
Amount Issued	<u>60,200,000</u>	<u>18,400,000</u>
Remaining to be Issued	<u><u>\$ 20,200,000</u></u>	<u><u>\$ 16,850,000</u></u>

Debt Service Fund cash and investment balances as of May 31, 2018: \$ 4,735,342

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 2,328,871

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding May 31, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$	\$ 87,600	\$ 2,920,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	1,745,000	168,050	7,530,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	<u>1,090,000</u>	<u>187,250</u>	<u>4,625,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 2,835,000</u>	<u>\$ 442,900</u>	<u>\$ 15,075,000</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 1,560,012	\$ 1,434,609	\$ 1,315,645
Water Service	1,120,679	1,055,621	1,085,180
Wastewater Service	585,729	587,592	586,260
Penalty and Interest	44,398	46,849	48,669
Tap Connection and Inspection Fees	11,871	12,150	18,727
Sales Tax Revenues	556,663	524,151	534,297
Investment Revenues	68,748	49,295	35,758
Miscellaneous Revenues	59,952	67,322	66,510
TOTAL REVENUES	\$ 4,008,052	\$ 3,777,589	\$ 3,691,046
EXPENDITURES			
Professional Fees	\$ 392,311	\$ 413,331	\$ 378,035
Contracted Services	465,532	490,483	487,715
Purchased Water Service	1,351,569	1,359,034	1,393,111
Purchased Wastewater Service	497,342	502,383	544,786
Utilities	321,647	400,694	460,234
Repairs and Maintenance	276,546	395,203	392,513
Other	158,192	143,610	147,711
Capital Outlay	1,893,336	193,094	308,337
TOTAL EXPENDITURES	\$ 5,356,475	\$ 3,897,832	\$ 4,112,442
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (1,348,423)	\$ (120,243)	\$ (421,396)
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ -0-	\$ -0-	\$ 91,670
NET CHANGE IN FUND BALANCE	\$ (1,348,423)	\$ (120,243)	\$ (329,726)
BEGINNING FUND BALANCE	9,334,304	9,454,547	9,784,273
ENDING FUND BALANCE	\$ 7,985,881	\$ 9,334,304	\$ 9,454,547

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 1,208,663	\$ 1,307,888	38.9 %	38.0 %	35.6 %	34.1 %	35.1 %
1,064,573	1,145,661	28.0	27.9	29.4	30.1	30.8
580,794	579,945	14.6	15.6	15.9	16.4	15.6
49,852	51,460	1.1	1.2	1.3	1.4	1.4
41,490	37,590	0.3	0.3	0.5	1.2	1.0
496,143	495,926	13.9	13.9	14.5	14.0	13.3
28,314	33,717	1.7	1.3	1.0	0.8	0.9
69,885	71,887	1.5	1.8	1.8	2.0	1.9
<u>\$ 3,539,714</u>	<u>\$ 3,724,074</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 257,159	\$ 262,066	9.8 %	10.9 %	10.2 %	7.3 %	7.0 %
477,159	420,152	11.6	13.0	13.2	13.5	11.3
1,191,030	989,084	33.7	36.0	37.7	33.6	26.6
583,371	504,273	12.4	13.3	14.8	16.5	13.5
428,060	272,855	8.0	10.6	12.5	12.1	7.3
299,036	401,535	6.9	10.5	10.6	8.4	10.8
188,167	188,571	3.9	3.8	4.0	5.3	5.1
53,914	210,931	47.2	5.1	8.4	1.5	5.7
<u>\$ 3,477,896</u>	<u>\$ 3,249,467</u>	<u>133.5 %</u>	<u>103.2 %</u>	<u>111.4 %</u>	<u>98.2 %</u>	<u>87.3 %</u>
<u>\$ 61,818</u>	<u>\$ 474,607</u>	<u>(33.5) %</u>	<u>(3.2) %</u>	<u>(11.4) %</u>	<u>1.8 %</u>	<u>12.7 %</u>
<u>\$ -0-</u>	<u>\$ -0-</u>					
\$ 61,818	\$ 474,607					
<u>9,722,455</u>	<u>9,247,848</u>					
<u>\$ 9,784,273</u>	<u>\$ 9,722,455</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 3,133,973	\$ 3,313,256	\$ 3,559,933
Penalty and Interest	75,660	72,614	77,271
Investment Revenues	31,084	16,896	16,957
Miscellaneous Revenues	1,643	6,904	4,141
TOTAL REVENUES	\$ 3,242,360	\$ 3,409,670	\$ 3,658,302
EXPENDITURES			
Tax Collection Expenditures	\$ 130,634	\$ 127,259	\$ 135,385
Debt Service Principal	2,835,000	2,825,000	4,530,000
Debt Service Interest and Fees	444,400	520,150	675,181
Bond Issuance Costs			
Payment to Refunded Bond Escrow Agent			
TOTAL EXPENDITURES	\$ 3,410,034	\$ 3,472,409	\$ 5,340,566
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (167,674)	\$ (62,739)	\$ (1,682,264)
OTHER FINANCING SOURCES (USES)			
Refunding Bonds	\$	\$	\$
Payment to Refunded Bond Escrow Agent			
Bond Premium			
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ -0-	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ (167,674)	\$ (62,739)	\$ (1,682,264)
BEGINNING FUND BALANCE	4,898,313	4,961,052	6,643,316
ENDING FUND BALANCE	\$ 4,730,639	\$ 4,898,313	\$ 4,961,052
TOTAL ACTIVE RETAIL WATER CONNECTIONS	5,496	5,495	5,480
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	5,449	5,448	5,496

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 3,674,340	\$ 3,490,439	96.6 %	97.2 %	97.3 %	97.3 %	97.5 %
79,092	70,036	2.3	2.1	2.1	2.1	2.0
14,158	17,317	1.0	0.5	0.5	0.4	0.5
8,149	298	0.1	0.2	0.1	0.2	
<u>\$ 3,775,739</u>	<u>\$ 3,578,090</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 123,627	\$ 126,267	4.0 %	3.7 %	3.7 %	3.3 %	3.5 %
2,860,000	2,600,000	87.4	82.9	123.8	75.7	72.7
800,054	796,960	13.7	15.3	18.5	21.2	22.3
	245,658					6.9
	6,000					0.2
<u>\$ 3,783,681</u>	<u>\$ 3,774,885</u>	<u>105.1 %</u>	<u>101.9 %</u>	<u>146.0 %</u>	<u>100.2 %</u>	<u>105.6 %</u>
<u>\$ (7,942)</u>	<u>\$ (196,795)</u>	<u>(5.1) %</u>	<u>(1.9) %</u>	<u>(46.0) %</u>	<u>(0.2) %</u>	<u>(5.6) %</u>
\$	\$ 5,795,000					
	(6,024,880)					
	481,915					
<u>\$ - 0 -</u>	<u>\$ 252,035</u>					
\$ (7,942)	\$ 55,240					
<u>6,651,258</u>	<u>6,596,018</u>					
<u>\$ 6,643,316</u>	<u>\$ 6,651,258</u>					
<u>5,413</u>	<u>5,369</u>					
<u>5,367</u>	<u>5,323</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 53
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2018

District Mailing Address - Harris County Municipal Utility District No. 53
c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP
1980 Post Oak Blvd., Suite 1380
Houston, TX 77056

District Telephone Number - (713) 850-9000

Board Members	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended May 31, 2018</u>	<u>Expense Reimbursements for the year ended May 31, 2018</u>	<u>Title</u>
Judy Grant	05/2018 – 05/2022 (Elected)	\$ 7,200	\$ 2,378	President
Michelle Denman	05/2016 – 05/2020 (Elected)	\$ 6,750	\$ 236	Vice President
Drew Fontenette	05/2016 – 05/2020 (Elected)	\$ 7,200	\$ 2,556	Secretary/ Treasurer
Andre Bradley	05/2018 – 05/2022 (Elected)	\$ 6,300	\$ 2,713	Assistant Secretary/ Treasurer
Kristine Johnstone	05/2018 – 05/2022 (Elected)	\$ 7,200	\$ 111	Assistant Vice President

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.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
May 11, 2018.

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 October 14, 2003. 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. 53
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2018

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended May 31, 2018</u>	<u>Title</u>
Sanford Kuhl Hagan Kugle Parker Kahn LLP	02/20/90	\$ 125,016	General Counsel
McCall Gibson Swedlund Barfoot PLLC	05/12/92	\$ 18,500	Auditor
Municipal Accounts & Consulting, L.P.	06/04/03	\$ 37,545	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/16/85	\$ 24,503	Delinquent Tax Attorney
Huitt-Zollars, Inc.	07/24/73	\$ 176,943	Engineer
Albert Gutierrez		\$ 36,000	Facility Manager
Rathmann & Associates, L.P.	02/19/91	\$ -0-	Financial Advisor
Harris County Fresh Water Supply District No. 51	04/13/99	\$ 674,645	Operator
Bob Leared Interests	02/01/84	\$ 70,776	Tax Assessor/ Collector

See accompanying independent auditor's report.

