

# **Harris County Municipal Utility District No. 165**

Harris County, Texas

Independent Auditor's Report and Financial Statements

September 30, 2017



**Harris County Municipal Utility District No. 165**  
**September 30, 2017**

**Contents**

<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Basic Financial Statements</b>	
Statement of Net Position and Governmental Funds Balance Sheet .....	10
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.....	12
Notes to Financial Statements.....	14
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund.....	29
Notes to Required Supplementary Information .....	30
<b>Other Information</b>	
Other Schedules Included Within This Report .....	31
Schedule of Services and Rates .....	32
Schedule of General Fund Expenditures.....	33
Schedule of Temporary Investments .....	34
Analysis of Taxes Levied and Receivable .....	35
Schedule of Long-term Debt Service Requirements by Years .....	37
Changes in Long-term Bonded Debt .....	47
Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund – Five Years.....	48
Board Members, Key Personnel and Consultants.....	50

## Independent Auditor's Report

Board of Directors  
Harris County Municipal Utility District No. 165  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities of Harris County Municipal Utility District No. 165 (the District), which are comprised of a statement of net position as of September 30, 2017, and a statement of activities for the year then ended; as well as the accompanying financial statements of each major fund, which for governmental funds are comprised of a balance sheet as of September 30, 2017, and a statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

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

***Other Information***

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Houston, Texas  
February 12, 2018

# Harris County Municipal Utility District No. 165

## Management's Discussion and Analysis

### September 30, 2017

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### **Government-wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

**Harris County Municipal Utility District No. 165**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2017**

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

**Fund Financial Statements**

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

**Governmental Funds**

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

**Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

**Harris County Municipal Utility District No. 165**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2017**

**Financial Analysis of the District as a Whole**

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

**Summary of Net Position**

	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 33,813,410	\$ 29,522,274
Capital assets	83,175,819	75,634,562
Total assets	116,989,229	105,156,836
Deferred outflows of resources	4,499,599	4,703,458
Total assets and deferred outflows of resources	\$ 121,488,828	\$ 109,860,294
Long-term liabilities	\$ 133,471,566	\$ 127,635,641
Other liabilities	4,891,181	4,855,965
Total liabilities	138,362,747	132,491,606
Net position:		
Net investment in capital assets	(43,658,517)	(42,345,796)
Restricted	11,271,969	6,891,148
Unrestricted	15,512,629	12,823,336
Total net position	\$ (16,873,919)	\$ (22,631,312)

The total net position of the District increased by \$5,757,393, or about 25 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Harris County Municipal Utility District No. 165**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2017**

**Summary of Changes in Net Position**

	<b><u>2017</u></b>	<b><u>2016</u></b>
Revenues:		
Property taxes	\$ 13,791,911	\$ 12,073,934
City of Houston rebates	92,599	72,971
Charges for services	7,170,245	6,117,789
Other revenues	1,432,953	1,512,533
	<u>22,487,708</u>	<u>19,777,227</u>
Expenses:		
Services	8,989,433	8,247,391
Conveyance of capital assets	907,059	2,659,343
Depreciation	1,893,548	1,794,491
Debt service	4,940,275	4,402,588
	<u>16,730,315</u>	<u>17,103,813</u>
Change in net position	5,757,393	2,673,414
Net position, beginning of year	<u>(22,631,312)</u>	<u>(25,304,726)</u>
Net position, end of year	<u>\$ (16,873,919)</u>	<u>\$ (22,631,312)</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended September 30, 2017, were \$28,840,022, an increase of \$4,164,659 from the prior year.

The general fund's fund balance increased by \$2,675,415 due to an increase in property taxes and service revenues, as well as tap connection and inspection fee revenues exceeding related tap connection expenditures.

The debt service fund's fund balance increased by \$4,297,781 primarily due to tax revenues generated being greater than bond principal and interest requirements.

The capital projects fund's fund balance decreased by \$2,808,537. This net decrease was primarily related to capital outlay expenditures, debt issuance costs and repayment of bond anticipation note principal and related interest exceeding the proceeds received from the Series 2017 bond sale.



**Harris County Municipal Utility District No. 165**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2017**

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to sewer services and regional water fee revenues and professional fees and capital outlay expenditures being higher than anticipated, as well as utilities, repairs and maintenance, and recreational fees expenditures being lower than anticipated. The fund balance as of September 30, 2017, was expected to be \$13,957,983 and the actual end-of-year fund balance was \$15,457,303.

**Capital Assets and Related Debt**

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

**Capital Assets (Net of Accumulated Depreciation)**

	<b>2017</b>	<b>2016</b>
Land and improvements	\$ 29,769,648	\$ 23,190,615
Construction in progress	6,086,072	5,836,230
Water facilities	16,523,848	16,660,481
Wastewater facilities	29,739,663	28,784,365
Parks and recreation facilities	1,056,588	1,162,871
Total capital assets	\$ 83,175,819	\$ 75,634,562

During the current year, additions to capital assets were as shown below:

Land and land improvements, including detention pond to serve Langham Creek Tract; Langham Creek, Phase 2; U-132 Detention, Phase 2; Mirabella Channel widening; 25.17-acre West detention site; 12.11-acre East detention site; Langham Creek pilot channel restoration and paving and drainage for West Road Crossing at U-132	\$ 5,141,240
Construction in progress related to construction of water plant No. 4; Miramesa lift station; wastewater treatment plant expansion, Langham Creek phase No. 2 fill plan; Water and sewer facilities to serve Miramesa, Section 1 and sidewalks on Greenhouse	1,959,955
Water and sewer facilities to serve Pine Creek at Canyon Lakes West, Sections 9, 10, 11, 12, 13 and 14; Towne Lake Greene, Sections 3 and 4; Mirabella Sections 4, 5, 6, 7, 8, 9, 10 and 11	435,798
Water and sewer facilities to serve West Road extension and reserve and Fry Road	479,378
12" waterline access to serve Mirabella, Section 5	102,750
Construction of Mountain Meadow sanitary sewer	2,303
Miramesa public utility extension	63,705
Mirabella lift station and force main	89,571
Lift station No. 1 and force main repair	564,494

**Harris County Municipal Utility District No. 165**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2017**

12" sanitary force main	\$ 248,536
Wastewater treatment plant headscreen replacement	347,075
Total additions to capital assets	\$ 9,434,805

Developers within the District are constructing water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues, subject to the approval of the Commission. At September 30, 2017, a liability for developer-constructed capital assets of \$591,310 was recorded in the government-wide financial statements.

**Debt**

The changes in the debt position of the District during the fiscal year ended September 30, 2017, were as follows:

Long-term debt payable, beginning of year	\$ 127,635,641
Increases in long-term debt	30,947,598
Decreases in long-term debt	(25,111,673)
Long-term debt payable, end of year	\$ 133,471,566

At September 30, 2017, the District had \$105,665,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems and \$16,000,000 for financing and constructing recreational facilities within the District.

The District's bonds carry an underlying rating of "BBB" by Standard & Poor's or "A3" by Moody's Investors Service. The Series 2011, 2011 refunding, 2014B and 2015 bonds carry a "AA" rating by virtue of bond insurance by Assured Guaranty Municipal Corp. The Series 2013, 2014 refunding, 2014A and 2015 refunding bonds carry a "AA" rating by virtue of bond insurance by Build America Mutual Assurance Company. The Series 2017 bonds carry a "AA-" rating by virtue of bond insurance issued by National Public Finance Guarantee Corporation.

**Other Relevant Factors**

**Relationship to the City of Houston**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent, except as set forth as follows.

**Harris County Municipal Utility District No. 165**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2017**

Strategic Partnership Agreement

Effective December 12, 2008, the District entered into a Strategic Partnership Agreement with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years.

Contingencies

Developers of the District are constructing water, sewer and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds of future bond sales. These amounts are to be reimbursed from bond proceeds to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$4,158,400. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

**Harris County Municipal Utility District No. 165**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**September 30, 2017**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 1,833,970	\$ 285,836	\$ 5,201,107	\$ 7,320,913	\$ -	\$ 7,320,913
Certificates of deposit	4,738,235	3,735,650	-	8,473,885	-	8,473,885
Short-term investments	9,420,052	6,875,638	-	16,295,690	-	16,295,690
Receivables:						
Property taxes	55,326	213,417	-	268,743	-	268,743
Service accounts	991,030	-	-	991,030	-	991,030
Accrued interest	19,911	16,319	-	36,230	-	36,230
Sales tax rebates	22,151	-	-	22,151	-	22,151
Accrued penalty and interest	-	-	-	-	117,183	117,183
Due from others	7,332	-	-	7,332	-	7,332
Interfund receivable	3,293	-	7,730	11,023	(11,023)	-
Prepaid expenditures	122,379	-	-	122,379	-	122,379
Operating deposit	157,874	-	-	157,874	-	157,874
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	29,769,648	29,769,648
Construction in progress	-	-	-	-	6,086,072	6,086,072
Infrastructure	-	-	-	-	46,263,511	46,263,511
Parks and recreation	-	-	-	-	1,056,588	1,056,588
<b>Total assets</b>	<b>17,371,553</b>	<b>11,126,860</b>	<b>5,208,837</b>	<b>33,707,250</b>	<b>83,281,979</b>	<b>116,989,229</b>
<b>Deferred Outflows of Resources</b>						
Deferred amount on debt refundings	0	0	0	0	4,499,599	4,499,599
<b>Total assets and deferred outflows of resources</b>	<b>\$ 17,371,553</b>	<b>\$ 11,126,860</b>	<b>\$ 5,208,837</b>	<b>\$ 33,707,250</b>	<b>\$ 87,781,578</b>	<b>\$ 121,488,828</b>

**Harris County Municipal Utility District No. 165**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**September 30, 2017**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>						
Accounts payable	\$ 788,845	\$ -	\$ 779,576	\$ 1,568,421	\$ -	\$ 1,568,421
Retainage payable	30,319	-	230,262	260,581	-	260,581
Accrued interest payable	-	80,528	-	80,528	303,719	384,247
Customer deposits	1,014,243	-	-	1,014,243	-	1,014,243
Due to others	17,787	-	1,645,902	1,663,689	-	1,663,689
Interfund payable	7,730	3,293	-	11,023	(11,023)	-
Long-term liabilities:						
Due within one year	-	-	-	-	3,630,000	3,630,000
Due after one year	-	-	-	-	129,841,566	129,841,566
Total liabilities	<u>1,858,924</u>	<u>83,821</u>	<u>2,655,740</u>	<u>4,598,485</u>	<u>133,764,262</u>	<u>138,362,747</u>
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	<u>55,326</u>	<u>213,417</u>	<u>0</u>	<u>268,743</u>	<u>(268,743)</u>	<u>0</u>
<b>Fund Balances/Net Position</b>						
Fund balances:						
Nonspendable, prepaid expenditures	122,379	-	-	122,379	(122,379)	-
Restricted:						
Unlimited tax bonds	-	10,829,622	-	10,829,622	(10,829,622)	-
Water, sewer and drainage	-	-	2,553,097	2,553,097	(2,553,097)	-
Assigned, operating deposit	157,874	-	-	157,874	(157,874)	-
Unreserved	<u>15,177,050</u>	<u>-</u>	<u>-</u>	<u>15,177,050</u>	<u>(15,177,050)</u>	<u>-</u>
Total fund balances	<u>15,457,303</u>	<u>10,829,622</u>	<u>2,553,097</u>	<u>28,840,022</u>	<u>(28,840,022)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 17,371,553</u>	<u>\$ 11,126,860</u>	<u>\$ 5,208,837</u>	<u>\$ 33,707,250</u>		
Net position:						
Net investment in capital assets					(43,658,517)	(43,658,517)
Restricted for debt service					10,856,503	10,856,503
Restricted for capital projects					415,466	415,466
Unrestricted					<u>15,512,629</u>	<u>15,512,629</u>
Total net position					<u>\$ (16,873,919)</u>	<u>\$ (16,873,919)</u>

**Harris County Municipal Utility District No. 165**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended September 30, 2017**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 2,984,566	\$ 10,747,674	\$ -	\$ 13,732,240	\$ 59,671	\$ 13,791,911
Sales tax rebates	92,599	-	-	92,599	-	92,599
Water service	2,781,092	-	-	2,781,092	-	2,781,092
Sewer service	2,485,682	-	-	2,485,682	-	2,485,682
Regional water fee	1,903,471	-	-	1,903,471	-	1,903,471
Penalty and interest	219,108	84,970	-	304,078	25,828	329,906
Tap connection and inspection fees	931,970	-	-	931,970	-	931,970
Investment income	87,126	66,477	9,033	162,636	-	162,636
Other income	8,441	-	-	8,441	-	8,441
<b>Total revenues</b>	<b>11,494,055</b>	<b>10,899,121</b>	<b>9,033</b>	<b>22,402,209</b>	<b>85,499</b>	<b>22,487,708</b>
<b>Expenditures/Expenses</b>						
Service operations:						
Purchased services	506,775	-	-	506,775	-	506,775
Regional water fee	1,750,123	-	-	1,750,123	-	1,750,123
Professional fees	696,042	37,960	-	734,002	185,136	919,138
Contracted services	2,683,178	195,855	-	2,879,033	-	2,879,033
Utilities	198,226	-	-	198,226	-	198,226
Repairs and maintenance	1,714,414	-	-	1,714,414	73,879	1,788,293
Other expenditures	328,362	8,922	3,376	340,660	9,659	350,319
Tap connections	437,615	-	-	437,615	-	437,615
Capital outlay	343,994	-	16,569,692	16,913,686	(16,913,686)	-
Conveyance of capital assets	-	-	-	-	907,059	907,059
Depreciation	-	-	-	-	1,893,548	1,893,548
Recreational facilities	159,911	-	-	159,911	-	159,911
Debt service:						
Principal retirement	-	2,675,000	15,525,500	18,200,500	(18,200,500)	-
Interest and fees	-	3,683,603	135,747	3,819,350	(208,408)	3,610,942
Debt issuance costs	-	-	1,329,333	1,329,333	-	1,329,333
<b>Total expenditures/expenses</b>	<b>8,818,640</b>	<b>6,601,340</b>	<b>33,563,648</b>	<b>48,983,628</b>	<b>(32,253,313)</b>	<b>16,730,315</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>2,675,415</b>	<b>4,297,781</b>	<b>(33,554,615)</b>	<b>(26,581,419)</b>	<b>32,338,812</b>	

**Harris County Municipal Utility District No. 165**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances (Continued)**  
**Year Ended September 30, 2017**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Other Financing Sources (Uses)</b>						
General obligation bonds issued	\$ -	\$ -	\$ 30,970,000	\$ 30,970,000	\$ (30,970,000)	
Discount on debt issued	-	-	(223,922)	(223,922)	223,922	
Total other financing sources	<u>0</u>	<u>0</u>	<u>30,746,078</u>	<u>30,746,078</u>	<u>(30,746,078)</u>	
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>						
	2,675,415	4,297,781	(2,808,537)	4,164,659	(4,164,659)	
<b>Change in Net Position</b>						
					5,757,393	\$ 5,757,393
<b>Fund Balances/Net Position</b>						
Beginning of year	<u>12,781,888</u>	<u>6,531,841</u>	<u>5,361,634</u>	<u>24,675,363</u>	-	<u>(22,631,312)</u>
End of year	<u>\$ 15,457,303</u>	<u>\$ 10,829,622</u>	<u>\$ 2,553,097</u>	<u>\$ 28,840,022</u>	<u>\$ 0</u>	<u>\$ (16,873,919)</u>

# Harris County Municipal Utility District No. 165

## Notes to Financial Statements

### September 30, 2017

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

Harris County Municipal Utility District No. 165 (the District) was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective July 6, 1978, in accordance with the Texas Water Code, Chapter 54 and Article XVI, Section 59, of the Texas Constitution. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

#### ***Reporting Entity***

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

#### ***Government-wide and Fund Financial Statements***

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.



# Harris County Municipal Utility District No. 165

## Notes to Financial Statements

### September 30, 2017

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

*General Fund* – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

*Debt Service Fund* – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

*Capital Projects Fund* – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

#### **Fund Balances – Governmental Funds**

The fund balances for the District's governmental funds can be displayed in up to five components:

*Nonspendable* – Amounts that are not in a spendable form or are required to be maintained intact.

*Restricted* – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

*Assigned* – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

*Unassigned* – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

***Measurement Focus and Basis of Accounting***

**Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

**Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

***Interfund Transactions***

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

***Pension Costs***

The District does not participate in a pension plan and, therefore, has no pension costs.

***Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

***Investments and Investment Income***

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2017, include collections during the current period or within 60 days of year-end related to the 2016 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended September 30, 2017, the 2016 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<b>Years</b>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Parks and recreation facilities	10-20

**Deferred Amount on Debt Refundings**

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

**Debt Issuance Costs**

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

***Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Net Position /Fund Balances***

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

***Reconciliation of Government-wide and Fund Financial Statements***

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 83,175,819
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	268,743
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	117,183
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	4,499,599
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(303,719)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(133,471,566)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ (45,713,941)</u>

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$	4,164,659
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation, conveyance of capital assets and noncapitalized costs in the current period.		13,844,405
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		223,922
Governmental funds report proceeds from the sale of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.		(12,769,500)
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.		85,499
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		208,408
Change in net position of governmental activities.	\$	<u><u>5,757,393</u></u>

**Note 2: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At September 30, 2017, none of the District's bank balances were exposed to custodial credit risk.

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

**Investments**

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their 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, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool and TexSTAR, external investment pools that are not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool, while a Board of Directors, made up of participants and representatives of the administrator and investment manager, has oversight of TexSTAR. The District's investments may be redeemed at any time. TexSTAR attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques.

At September 30, 2017, the District had the following investments and maturities:

Type	Maturities in Years				
	Amortized Cost/Fair Value	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 5,475,570	\$ 5,475,570	\$ -	\$ -	\$ -
TexSTAR	10,820,120	10,820,120	-	-	-
Total	<u>\$ 16,295,690</u>	<u>\$ 16,295,690</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pools are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2017, the District's investments in TexPool and TexSTAR were rated "AAAm" by Standard & Poor's.

***Summary of Carrying Values***

The carrying values of deposits and investments shown previously are included in the balance sheet at September 30, 2017, as follows.

Carrying value:		
Deposits	\$	15,794,798
Investments		16,295,690
Total	\$	32,090,488

Included in the following statement of net position captions:

Cash	\$	7,320,913
Certificates of deposit		8,473,885
Short-term investments		16,295,690
Total	\$	32,090,488

***Investment Income***

Investment income of \$162,636 for the year ended September 30, 2017, consisted of interest income.

***Fair Value Measurements***

The District has the following recurring fair value measurements as of September 30, 2017:

- Pooled investments of \$10,820,120 are valued at fair value per share of the pool's underlying portfolio.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended September 30, 2017, is presented as follows.



**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Reclassi- fications</b>	<b>Balances, End of Year</b>
Capital assets, non-depreciable:				
Land and improvements	\$ 23,190,615	\$ 5,141,240	\$ 1,437,793	\$ 29,769,648
Construction in progress	5,836,230	1,959,955	(1,710,113)	6,086,072
Total capital assets, non-depreciable	29,026,845	7,101,195	(272,320)	35,855,720
Capital assets, depreciable:				
Water production and distribution facilities	22,525,192	553,677	16,000	23,094,869
Wastewater collection and treatment facilities	36,150,690	1,779,933	256,320	38,186,943
Parks and recreation	1,594,247	-	-	1,594,247
Total capital assets, depreciable	60,270,129	2,333,610	272,320	62,876,059
Less accumulated depreciation:				
Water production and distribution facilities	(5,864,711)	(706,310)	-	(6,571,021)
Wastewater collection and treatment facilities	(7,366,325)	(1,080,955)	-	(8,447,280)
Parks and recreation	(431,376)	(106,283)	-	(537,659)
Total accumulated depreciation	(13,662,412)	(1,893,548)	0	(15,555,960)
Total governmental activities, net	<u>\$ 75,634,562</u>	<u>\$ 7,541,257</u>	<u>\$ 0</u>	<u>\$ 83,175,819</u>

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended September 30, 2017, were as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:					
General obligation bonds	\$ 103,445,000	\$ 30,970,000	\$ 2,675,000	\$ 131,740,000	\$ 3,630,000
Less discounts on bonds	1,146,275	223,922	35,022	1,335,175	-
Add premiums on bonds	2,593,731	-	118,300	2,475,431	-
	104,892,456	30,746,078	2,758,278	132,880,256	3,630,000
Bond anticipation note	15,525,500	-	15,525,500	-	-
Due to developers	7,217,685	201,520	6,827,895	591,310	-
Total governmental activities long-term liabilities	<u>\$ 127,635,641</u>	<u>\$ 30,947,598</u>	<u>\$ 25,111,673</u>	<u>\$ 133,471,566</u>	<u>\$ 3,630,000</u>

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

***General Obligation Bonds***

	<b>Series 2011</b>	<b>Refunding Series 2011</b>
Amounts outstanding, September 30, 2017	\$1,930,000	\$2,745,000
Interest rates	4.00% to 5.00%	2.00% to 4.50%
Maturity dates, serially beginning/ending	March 1, 2030/2035	March 1, 2018/2024
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates*	March 1, 2019	March 1, 2019
	<b>Series 2013</b>	<b>Refunding Series 2014</b>
Amounts outstanding, September 30, 2017	\$7,850,000	\$6,175,000
Interest rates	2.60% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	March 1, 2018/2038	March 1, 2018/2030
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates*	March 1, 2021	March 1, 2022
	<b>Series 2014A</b>	<b>Series 2014B</b>
Amounts outstanding, September 30, 2017	\$6,435,000	\$3,640,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	March 1, 2018/2038	March 1, 2018/2038
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates*	March 1, 2022	March 1, 2022

\*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

	<b>Refunding Series 2015</b>	<b>Series 2015</b>
Amounts outstanding, September 30, 2017	\$47,525,000	\$24,470,000
Interest rates	2.00% to 5.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	March 1, 2018/2034	March 1, 2018/2039
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates*	March 1, 2025	March 1, 2024
		<b>Series 2017</b>
Amount outstanding, September 30, 2017		\$30,970,000
Interest rates		2.250% to 4.00%
Maturity dates, serially beginning/ending		March 1, 2018/2042
Interest payment dates		March 1/September 1
Callable date*		March 1, 2025

\*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

***Annual Debt Service Requirements***

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at September 30, 2017.

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 3,630,000	\$ 4,889,405	\$ 8,519,405
2019	4,060,000	4,523,289	8,583,289
2020	4,730,000	4,392,738	9,122,738
2021	4,910,000	4,243,954	9,153,954
2022	5,110,000	4,086,986	9,196,986
2023-2027	28,995,000	17,486,967	46,481,967
2028-2032	36,540,000	11,852,643	48,392,643
2033-2037	30,350,000	4,723,460	35,073,460
2038-2042	13,415,000	942,982	14,357,982
Total	<u>\$ 131,740,000</u>	<u>\$ 57,142,424</u>	<u>\$ 188,882,424</u>

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Bonds voted:	
Water, sewer and drainage facilities	\$ 263,940,000
Recreational facilities	16,000,000
Bonds sold	158,275,000
Refunding bonds voted	8,000,000
Refunding bond authorization used	2,595,744

***Due to Developers***

Developers of the District have constructed underground utilities on behalf of the District. The District is maintaining and operating the facilities and has agreed to reimburse the developers for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$591,310. The District has agreed to reimburse these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities.

**Note 5: Significant Bond Resolution and Commission Requirements**

The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended September 30, 2017, the District levied an ad valorem debt service tax at the rate of \$0.9000 per \$100 of assessed valuation, which resulted in a tax levy of \$10,809,881 on the taxable valuation of \$1,201,097,761 for the 2016 tax year. The interest and principal requirements paid from the tax revenues were \$6,354,203.

**Note 6: Maintenance Taxes**

At an election held May 2, 1998, voters authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended September 30, 2017, the District levied an ad valorem maintenance tax at the rate of \$0.2500 per \$100 of assessed valuation, which resulted in a tax levy of \$3,002,745 on the taxable valuation of \$1,201,097,761 for the 2016 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

# Harris County Municipal Utility District No. 165

## Notes to Financial Statements

September 30, 2017

### Note 7: Contracts With Other Districts

On July 3, 2003, the District entered into a Restated Permanent Waste Disposal Agreement (the Agreement) with Harris County Municipal Utility District No. 157 (District No. 157), which restates an agreement with District No. 157 and Harris County Municipal Utility District No. 225 dated September 20, 1979, as subsequently amended. The Agreement is for the term of 50 years.

Under the terms of the Agreement, District No. 157 has oversight responsibility for operations and holds title to the facility for the benefit of the participants. The facility has a current rated capacity of 1,200,000 gallons per day (gpd), of which the District is entitled to utilize 45.43 percent.

The District is billed the actual expenditures for the preceding month's operation of the facility. These expenditures are allocated to either fixed costs, which are based on capacity owned, or variable costs, which are shared based on active connections. For the year ended September 30, 2017, the District has incurred costs of \$487,432 for operations. An operating reserve of approximately four months' expenses was established in a prior year and at the balance sheet date, was \$157,874. The following table represents condensed audited financial information of the facilities, which were audited by another certified public accountant, as of and for the year ended December 31, 2016.

	<b>General Fund</b>	<b>District's Proportionate Share</b>
Total assets	\$ 348,297	\$ 158,231
Total liabilities	\$ -	\$ -
Total fund balance	348,297	158,231
Total liabilities and fund balance	\$ 348,297	\$ 158,231
Total revenues	\$ 945,381	\$ 429,487
Total expenditures	(945,381)	(429,487)
Excess revenues	\$ 0	\$ 0

### Note 8: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

**Harris County Municipal Utility District No. 165**  
**Notes to Financial Statements**  
**September 30, 2017**

**Note 9: Strategic Partnership Agreement**

Effective December 12, 2008, the District and the City of Houston (the City) entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all City sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full-purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years. During the current year, the District recorded \$92,599 in revenues related to the Agreement.

**Note 10: Contingencies**

Developers of the District are constructing water, sewer and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds of future bond sales. These amounts are to be reimbursed from bond proceeds to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$4,158,400. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

**Note 11: Hurricane Harvey**

The Houston area sustained widespread flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District sustained material damage at certain facilities, including Langham Creek, and estimates damages incurred to be approximately \$1,200,000. The District has filed an insurance claim with their insurance provider and a claim with the Federal Emergency Management Agency (FEMA). Hurricane Harvey and flooding could have an adverse impact on the region's economy, including business activity and development in the region.

## **Required Supplementary Information**

**Harris County Municipal Utility District No. 165**  
**Budgetary Comparison Schedule – General Fund**  
**September 30, 2017**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 2,900,000	\$ 2,984,566	\$ 84,566
Sales tax rebates	70,000	92,599	22,599
Water service	2,700,000	2,781,092	81,092
Sewer service	2,100,000	2,485,682	385,682
Regional water fee	1,800,000	1,903,471	103,471
Penalty and interest	250,000	219,108	(30,892)
Tap connection and inspection fees	1,050,000	931,970	(118,030)
Investment income	22,000	87,126	65,126
Other income	11,000	8,441	(2,559)
<b>Total revenues</b>	<b>10,903,000</b>	<b>11,494,055</b>	<b>591,055</b>
<b>Expenditures</b>			
Service operations:			
Purchased services	490,000	506,775	(16,775)
Regional water fee	1,800,000	1,750,123	49,877
Professional fees	366,800	696,042	(329,242)
Contracted services	2,720,280	2,683,178	37,102
Utilities	325,000	198,226	126,774
Recreational facilities	529,000	159,911	369,089
Repairs and maintenance	2,377,325	1,714,414	662,911
Other expenditures	393,500	328,362	65,138
Tap connections	525,000	437,615	87,385
Capital outlay	200,000	343,994	(143,994)
<b>Total expenditures</b>	<b>9,726,905</b>	<b>8,818,640</b>	<b>908,265</b>
<b>Excess of Revenues Over Expenditures</b>	<b>1,176,095</b>	<b>2,675,415</b>	<b>1,499,320</b>
<b>Fund Balance, Beginning of Year</b>	<b>12,781,888</b>	<b>12,781,888</b>	<b>-</b>
<b>Fund Balance, End of Year</b>	<b>\$ 13,957,983</b>	<b>\$ 15,457,303</b>	<b>\$ 1,499,320</b>



**Harris County Municipal Utility District No. 165**  
**Notes to Required Supplementary Information**  
**September 30, 2017**

***Budgets and Budgetary Accounting***

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2017.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

## **Other Information**

**Harris County Municipal Utility District No. 165**  
**Other Schedules Included Within This Report**  
**September 30, 2017**

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 14-28
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants

# Harris County Municipal Utility District No. 165

## Schedule of Services and Rates

### Year Ended September 30, 2017

1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input checked="" type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input checked="" type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other _____		

2. Retail service providers

a. Retail rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 22.20	0	N	\$ 0.72	1 to 10,000
				\$ 1.50	10,001 to 15,000
				\$ 2.00	15,001 to No Limit
Wastewater:	\$ 29.72	0	Y		
Regional water fee:	\$ 2.70	1	N	\$ 2.70	1 to No Limit

Does the District employ winter averaging for wastewater usage?

Yes  No

Total charges per 10,000 gallons usage (including fees):      Water \$ 56.40      Wastewater \$ 29.72

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	5,571	5,487	x1.0	5,487
1"	1,512	1,509	x2.5	3,773
1 1/2"	24	23	x5.0	115
2"	111	108	x8.0	864
3"	5	5	x15.0	75
4"	1	1	x25.0	25
6"	-	-	x50.0	-
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	7,225	7,134		10,419
Total wastewater	7,044	7,044	x1.0	7,044

3. Total water consumption (in thousands) during the fiscal year:

Callons pumped into the system:	753,767
Callons billed to customers:	729,766
Water accountability ratio (gallons billed/gallons pumped):	96.82%

\*"ESFC" means equivalent single-family connections

**Harris County Municipal Utility District No. 165**  
**Schedule of General Fund Expenditures**  
**Year Ended September 30, 2017**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	28,019	
Legal		180,574	
Engineering		487,449	
Financial advisor		-	696,042
		<hr/>	
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			506,775
<b>Regional Water Fee</b>			1,750,123
<b>Contracted Services</b>			
Bookkeeping		36,900	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		960,922	
Other contracted services		411,930	1,409,752
		<hr/>	
<b>Utilities</b>			198,226
<b>Repairs and Maintenance</b>			1,714,414
<b>Administrative Expenditures</b>			
Directors' fees		22,800	
Office supplies		137,263	
Insurance		83,896	
Other administrative expenditures		58,407	302,366
		<hr/>	
<b>Capital Outlay</b>			
Capitalized assets		303,194	
Expenditures not capitalized		40,800	343,994
		<hr/>	
<b>Tap Connection Expenditures</b>			437,615
<b>Solid Waste Disposal</b>			1,273,426
<b>Fire Fighting</b>			-
<b>Parks and Recreation</b>			159,911
<b>Other Expenditures</b>			25,996
			<hr/>
Total expenditures		\$	<u>8,818,640</u>

**Harris County Municipal Utility District No. 165**  
**Schedule of Temporary Investments**  
**September 30, 2017**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
Certificates of Deposit				
No. 440735	0.90%	12/23/17	\$ 245,917	\$ 1,704
No. 1002092392	0.75%	03/03/18	247,873	1,075
No. 1020006729	0.85%	03/15/18	3,000,000	13,865
No. 6000003001	1.00%	06/03/18	244,445	797
No. 6750991392	1.27%	07/21/18	1,000,000	2,470
TexPool	1.02%	Demand	5,088,166	-
TexSTAR	1.04%	Demand	4,331,886	-
			<u>14,158,287</u>	<u>19,911</u>
<b>Debt Service Fund</b>				
Certificates of Deposit				
No. 520585	0.60%	03/03/18	244,112	847
No. 1020006664	0.85%	03/15/18	3,000,000	13,864
No. 1002037661	1.00%	05/04/18	245,000	1,000
No. 465534	0.90%	06/22/18	246,538	608
TexPool	1.02%	Demand	387,404	-
TexSTAR	1.04%	Demand	6,488,234	-
			<u>10,611,288</u>	<u>16,319</u>
Totals			<u>\$ 24,769,575</u>	<u>\$ 36,230</u>

**Harris County Municipal Utility District No. 165**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended September 30, 2017**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 41,448	\$ 167,624
Additions and corrections to prior years' taxes	(4,301)	(16,414)
Adjusted receivable, beginning of year	37,147	151,210
 <b>2016 Original Tax Levy</b>	 2,876,271	 10,354,575
Additions and corrections	126,474	455,306
Adjusted tax levy	3,002,745	10,809,881
Total to be accounted for	3,039,892	10,961,091
Tax collections:   Current year	(2,973,759)	(10,705,531)
Prior years	(10,807)	(42,143)
Receivable, end of year	\$ 55,326	\$ 213,417
 <b>Receivable, by Years</b>		
2016	\$ 28,986	\$ 104,350
2015	7,650	29,070
2014	3,161	13,527
2013	3,002	12,851
2012	2,660	11,387
2011	1,676	7,175
2010	1,869	8,000
2009	3,270	13,997
2008	2,848	12,191
2007	143	613
2006	53	226
2005	1	6
2004	1	3
2003	1	3
2002	1	3
2001	1	3
2000	1	3
1999	1	5
1998	1	4
Receivable, end of year	\$ 55,326	\$ 213,417

**Harris County Municipal Utility District No. 165**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended September 30, 2017**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Property Valuations</b>				
Land	\$ 285,069,017	\$ 253,134,572	\$ 217,761,391	\$ 177,744,143
Improvements	981,512,565	835,762,690	604,215,053	432,289,298
Personal property	19,079,816	19,534,055	16,919,939	13,560,237
Exemptions	<u>(84,563,637)</u>	<u>(103,982,241)</u>	<u>(73,418,765)</u>	<u>(37,878,307)</u>
Total property valuations	<u>\$ 1,201,097,761</u>	<u>\$ 1,004,449,076</u>	<u>\$ 765,477,618</u>	<u>\$ 585,715,371</u>
<b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.9000	\$ 0.9500	\$ 1.0700	\$ 1.0700
Maintenance tax rates*	<u>0.2500</u>	<u>0.2500</u>	<u>0.2500</u>	<u>0.2500</u>
Total tax rates per \$100 valuation	<u>\$ 1.1500</u>	<u>\$ 1.2000</u>	<u>\$ 1.3200</u>	<u>\$ 1.3200</u>
<b>Tax Levy</b>	<u>\$ 13,812,626</u>	<u>\$ 12,053,389</u>	<u>\$ 10,104,305</u>	<u>\$ 7,731,443</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>				
	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$0.25 on May 2, 1998

\*\*Calculated as taxes collected for a tax year divided by taxes levied for that tax year.



**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years**  
**September 30, 2017**

Due During Fiscal Years Ending September 30	Series 2011		
	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ -	\$ 93,175	\$ 93,175
2019	-	93,175	93,175
2020	-	93,175	93,175
2021	-	93,175	93,175
2022	-	93,175	93,175
2023	-	93,175	93,175
2024	-	93,175	93,175
2025	-	93,175	93,175
2026	-	93,175	93,175
2027	-	93,175	93,175
2028	-	93,175	93,175
2029	-	93,175	93,175
2030	280,000	86,595	366,595
2031	295,000	73,083	368,083
2032	310,000	58,788	368,788
2033	330,000	43,588	373,588
2034	350,000	27,000	377,000
2035	365,000	9,125	374,125
Totals	\$ 1,930,000	\$ 1,416,279	\$ 3,346,279

**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

<b>Due During Fiscal Years Ending September 30</b>	<b>Refunding Series 2011</b>		
	<b>Principal Due March 1</b>	<b>Interest Due March 1, September 1</b>	<b>Total</b>
2018	\$ 335,000	\$ 110,888	\$ 445,888
2019	350,000	99,700	449,700
2020	370,000	84,375	454,375
2021	385,000	67,388	452,388
2022	410,000	49,500	459,500
2023	435,000	30,488	465,488
2024	460,000	10,350	470,350
Totals	<u>\$ 2,745,000</u>	<u>\$ 452,689</u>	<u>\$ 3,197,689</u>

**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

Due During Fiscal Years Ending September 30	Series 2013		
	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 235,000	\$ 280,530	\$ 515,530
2019	245,000	274,290	519,290
2020	255,000	267,790	522,790
2021	270,000	260,830	530,830
2022	280,000	253,335	533,335
2023	295,000	245,208	540,208
2024	305,000	236,355	541,355
2025	320,000	226,660	546,660
2026	330,000	215,930	545,930
2027	345,000	204,110	549,110
2028	360,000	191,150	551,150
2029	380,000	176,800	556,800
2030	395,000	161,300	556,300
2031	410,000	145,200	555,200
2032	430,000	128,400	558,400
2033	450,000	110,800	560,800
2034	465,000	92,500	557,500
2035	485,000	73,500	558,500
2036	510,000	53,600	563,600
2037	530,000	32,800	562,800
2038	555,000	11,100	566,100
Totals	\$ 7,850,000	\$ 3,642,188	\$ 11,492,188

**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

<b>Due During Fiscal Years Ending September 30</b>	<b>Refunding Series 2014</b>		
	<b>Principal Due March 1</b>	<b>Interest Due March 1, September 1</b>	<b>Total</b>
2018	\$ 680,000	\$ 193,450	\$ 873,450
2019	1,005,000	168,175	1,173,175
2020	560,000	144,700	704,700
2021	755,000	124,975	879,975
2022	785,000	101,875	886,875
2023	255,000	85,637	340,637
2024	270,000	76,450	346,450
2025	280,000	66,825	346,825
2026	290,000	56,488	346,488
2027	300,000	45,425	345,425
2028	315,000	33,500	348,500
2029	335,000	20,500	355,500
2030	345,000	6,900	351,900
Totals	<u>\$ 6,175,000</u>	<u>\$ 1,124,900</u>	<u>\$ 7,299,900</u>

**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

Due During Fiscal Years Ending September 30	Series 2014A		
	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 190,000	\$ 212,205	\$ 402,205
2019	195,000	208,355	403,355
2020	205,000	204,355	409,355
2021	215,000	199,617	414,617
2022	225,000	193,555	418,555
2023	235,000	186,655	421,655
2024	245,000	179,455	424,455
2025	260,000	171,880	431,880
2026	270,000	163,930	433,930
2027	280,000	155,540	435,540
2028	295,000	146,480	441,480
2029	310,000	136,645	446,645
2030	325,000	126,005	451,005
2031	340,000	114,530	454,530
2032	355,000	102,367	457,367
2033	370,000	89,495	459,495
2034	385,000	75,713	460,713
2035	405,000	60,895	465,895
2036	425,000	44,700	469,700
2037	440,000	27,400	467,400
2038	465,000	9,300	474,300
Totals	\$ 6,435,000	\$ 2,809,077	\$ 9,244,077

**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

Due During Fiscal Years Ending September 30	Series 2014B		
	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 105,000	\$ 125,637	\$ 230,637
2019	110,000	123,488	233,488
2020	115,000	120,662	235,662
2021	120,000	117,138	237,138
2022	130,000	113,387	243,387
2023	135,000	109,413	244,413
2024	140,000	105,287	245,287
2025	145,000	101,013	246,013
2026	155,000	96,512	251,512
2027	160,000	91,588	251,588
2028	165,000	86,306	251,306
2029	175,000	80,562	255,562
2030	185,000	74,263	259,263
2031	190,000	67,463	257,463
2032	200,000	60,150	260,150
2033	210,000	52,200	262,200
2034	220,000	43,600	263,600
2035	230,000	34,600	264,600
2036	240,000	25,200	265,200
2037	250,000	15,400	265,400
2038	260,000	5,200	265,200
Totals	<u>\$ 3,640,000</u>	<u>\$ 1,649,069</u>	<u>\$ 5,289,069</u>

**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

Due During Fiscal Years Ending September 30	Refunding Series 2015		
	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 935,000	\$ 1,794,000	\$ 2,729,000
2019	660,000	1,778,050	2,438,050
2020	1,665,000	1,746,475	3,411,475
2021	1,545,000	1,698,325	3,243,325
2022	1,590,000	1,651,300	3,241,300
2023	2,195,000	1,594,525	3,789,525
2024	2,260,000	1,505,100	3,765,100
2025	2,880,000	1,376,600	4,256,600
2026	3,035,000	1,259,075	4,294,075
2027	3,135,000	1,166,525	4,301,525
2028	3,235,000	1,070,975	4,305,975
2029	3,340,000	968,175	4,308,175
2030	3,465,000	827,275	4,292,275
2031	4,055,000	639,275	4,694,275
2032	4,290,000	430,650	4,720,650
2033	4,525,000	244,213	4,769,213
2034	4,715,000	82,512	4,797,512
Totals	\$ 47,525,000	\$ 19,833,050	\$ 67,358,050

**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

Due During Fiscal Years Ending September 30	Series 2015		
	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 665,000	\$ 795,025	\$ 1,460,025
2019	695,000	778,100	1,473,100
2020	730,000	763,850	1,493,850
2021	760,000	748,950	1,508,950
2022	795,000	732,403	1,527,403
2023	835,000	713,025	1,548,025
2024	870,000	689,538	1,559,538
2025	915,000	662,762	1,577,762
2026	955,000	634,713	1,589,713
2027	1,000,000	605,387	1,605,387
2028	1,045,000	574,060	1,619,060
2029	1,090,000	540,019	1,630,019
2030	1,145,000	502,984	1,647,984
2031	1,195,000	462,750	1,657,750
2032	1,250,000	419,963	1,669,963
2033	1,310,000	375,163	1,685,163
2034	1,370,000	327,407	1,697,407
2035	1,430,000	275,763	1,705,763
2036	1,495,000	220,919	1,715,919
2037	1,565,000	163,544	1,728,544
2038	1,640,000	101,400	1,741,400
2039	1,715,000	34,300	1,749,300
Totals	\$ 24,470,000	\$ 11,122,025	\$ 35,592,025



**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

Due During Fiscal Years Ending September 30	Series 2017		
	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 485,000	\$ 1,284,495	\$ 1,769,495
2019	800,000	999,956	1,799,956
2020	830,000	967,356	1,797,356
2021	860,000	933,556	1,793,556
2022	895,000	898,456	1,793,456
2023	925,000	862,056	1,787,056
2024	965,000	824,256	1,789,256
2025	1,000,000	784,956	1,784,956
2026	1,040,000	753,256	1,793,256
2027	1,075,000	728,119	1,803,119
2028	1,120,000	699,981	1,819,981
2029	1,160,000	667,881	1,827,881
2030	1,205,000	632,406	1,837,406
2031	1,250,000	595,581	1,845,581
2032	1,300,000	557,331	1,857,331
2033	1,350,000	516,738	1,866,738
2034	1,400,000	472,894	1,872,894
2035	1,455,000	426,500	1,881,500
2036	1,510,000	378,319	1,888,319
2037	1,565,000	327,372	1,892,372
2038	1,625,000	273,541	1,898,541
2039	1,690,000	217,600	1,907,600
2040	1,755,000	159,466	1,914,466
2041	1,820,000	98,000	1,918,000
2042	1,890,000	33,075	1,923,075
Totals	\$ 30,970,000	\$ 15,093,147	\$ 46,063,147

**Harris County Municipal Utility District No. 165**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2017**

Due During Fiscal Years Ending September 30	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	\$ 3,630,000	\$ 4,889,405	\$ 8,519,405
2019	4,060,000	4,523,289	8,583,289
2020	4,730,000	4,392,738	9,122,738
2021	4,910,000	4,243,954	9,153,954
2022	5,110,000	4,086,986	9,196,986
2023	5,310,000	3,920,182	9,230,182
2024	5,515,000	3,719,966	9,234,966
2025	5,800,000	3,483,871	9,283,871
2026	6,075,000	3,273,079	9,348,079
2027	6,295,000	3,089,869	9,384,869
2028	6,535,000	2,895,627	9,430,627
2029	6,790,000	2,683,757	9,473,757
2030	7,345,000	2,417,728	9,762,728
2031	7,735,000	2,097,882	9,832,882
2032	8,135,000	1,757,649	9,892,649
2033	8,545,000	1,432,197	9,977,197
2034	8,905,000	1,121,626	10,026,626
2035	4,370,000	880,383	5,250,383
2036	4,180,000	722,738	4,902,738
2037	4,350,000	566,516	4,916,516
2038	4,545,000	400,541	4,945,541
2039	3,405,000	251,900	3,656,900
2040	1,755,000	159,466	1,914,466
2041	1,820,000	98,000	1,918,000
2042	1,890,000	33,075	1,923,075
Totals	<u>\$ 131,740,000</u>	<u>\$ 57,142,424</u>	<u>\$ 188,882,424</u>

**Harris County Municipal Utility District No. 165**  
**Changes in Long-term Bonded Debt**  
**Year Ended September 30, 2017**

	<b>Bond</b>			
	<b>Series 2011</b>	<b>Refunding Series 2011</b>	<b>Series 2013</b>	<b>Refunding Series 2014</b>
Interest rates	4.00% to 5.00%	2.00% to 4.50%	2.60% to 4.00%	2.00% to 4.00%
Dates interest payable	March 1/ September 1	March 1/ September 1	March 1/ September 1	March 1/ September 1
Maturity dates	March 1, 2030/2035	March 1, 2018/2024	March 1, 2018/2038	March 1, 2018/2030
Bonds outstanding, beginning of current year	\$ 1,930,000	\$ 3,065,000	\$ 8,075,000	\$ 6,420,000
Bonds sold during current year	-	-	-	-
Retirements, principal	-	320,000	225,000	245,000
Bonds outstanding, end of current year	<u>\$ 1,930,000</u>	<u>\$ 2,745,000</u>	<u>\$ 7,850,000</u>	<u>\$ 6,175,000</u>
Interest paid during current year	<u>\$ 93,175</u>	<u>\$ 119,075</u>	<u>\$ 286,510</u>	<u>\$ 206,100</u>

Paying agent's name and address:

<b>Series 2011</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2011R</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2013</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2014R</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2014A</b>	- Amegy Bank, N.A., Houston, Texas
<b>Series 2014B</b>	- Amegy Bank, N.A., Houston, Texas
<b>Series 2015R</b>	- Amegy Bank, N.A., Houston, Texas
<b>Series 2015</b>	- Amegy Bank, N.A., Houston, Texas
<b>Series 2017</b>	- Amegy Bank, N.A., Houston, Texas

Bond authority:

	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 263,940,000	\$ 16,000,000	\$ 8,000,000
Amount issued	\$ 158,275,000	\$ -	\$ 2,595,744
Remaining to be issued	<u>\$ 105,665,000</u>	<u>\$ 16,000,000</u>	<u>\$ 5,404,256</u>

Debt service fund cash and temporary investment balances as of September 30, 2017: \$ 10,897,124

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 7,555,297

**Issues**

<b>Series 2014A</b>	<b>Series 2014B</b>	<b>Refunding Series 2015</b>	<b>Series 2015</b>	<b>Series 2017</b>	<b>Totals</b>
2.00% to 4.00%	2.00% to 4.00%	2.00% to 5.00%	2.00% to 4.00%	2.250% to 4.00%	
March 1/ September 1	March 1/ September 1	March 1/ September 1	March 1/ September 1	March 1/ September 1	
March 1, 2018/2038	March 1, 2018/2038	March 1, 2018/2034	March 1, 2018/2039	March 1, 2018/2042	
\$ 6,615,000	\$ 3,740,000	\$ 48,495,000	\$ 25,105,000	\$ -	\$ 103,445,000
-	-	-	-	30,970,000	30,970,000
180,000	100,000	970,000	635,000	-	2,675,000
<u>\$ 6,435,000</u>	<u>\$ 3,640,000</u>	<u>\$ 47,525,000</u>	<u>\$ 24,470,000</u>	<u>\$ 30,970,000</u>	<u>\$ 131,740,000</u>
<u>\$ 215,905</u>	<u>\$ 127,688</u>	<u>\$ 1,813,050</u>	<u>\$ 817,700</u>	<u>\$ 0</u>	<u>\$ 3,679,203</u>

**Harris County Municipal Utility District No. 165**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended September 30,**

	Amounts				
	2017	2016	2015	2014	2013
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 2,984,566	\$ 2,506,809	\$ 1,913,994	\$ 1,457,618	\$ 1,322,437
Sales tax rebates	92,599	72,971	63,184	67,967	50,451
Water service	2,781,092	2,420,398	2,234,644	2,016,577	1,803,535
Sewer service	2,485,682	2,050,097	1,955,619	1,714,128	1,559,343
Regional water fee	1,903,471	1,647,294	1,234,021	1,094,672	1,031,393
Penalty and interest	219,108	254,543	177,395	231,139	221,346
Tap connection and inspection fees	931,970	1,074,035	964,944	1,008,185	782,942
Investment income	87,126	24,777	17,360	14,433	16,970
Other income	8,441	8,495	5,346	122,783	135,930
Total revenues	<u>11,494,055</u>	<u>10,059,419</u>	<u>8,566,507</u>	<u>7,727,502</u>	<u>6,924,347</u>
<b>Expenditures</b>					
Service operations:					
Purchased services	506,775	485,428	407,867	558,488	511,921
Regional water fee	1,750,123	1,602,225	1,240,382	1,101,030	1,045,726
Professional fees	696,042	354,830	329,339	332,525	346,549
Contracted services	2,683,178	2,452,277	2,256,251	1,839,619	1,494,754
Utilities	198,226	230,749	234,285	275,829	336,164
Repairs and maintenance	1,714,414	1,456,271	1,423,326	1,171,275	1,207,154
Other expenditures	328,362	288,800	340,044	324,088	315,292
Tap connections	437,615	447,304	547,275	437,675	343,457
Capital outlay	343,994	276,891	514,482	128,775	256,237
Recreational facilities	159,911	96,268	73,517	-	-
Lease payments	-	-	-	-	21,600
Total expenditures	<u>8,818,640</u>	<u>7,691,043</u>	<u>7,366,768</u>	<u>6,169,304</u>	<u>5,878,854</u>
<b>Excess of Revenues Over Expenditures</b>	2,675,415	2,368,376	1,199,739	1,558,198	1,045,493
<b>Other Financing Sources</b>					
Interfund transfers in	-	9,450	-	85,033	43,965
<b>Excess of Revenues and Transfers In Over Expenditures and Transfers Out</b>	2,675,415	2,377,826	1,199,739	1,643,231	1,089,458
<b>Fund Balance, Beginning of Year</b>	<u>12,781,888</u>	<u>10,404,062</u>	<u>9,204,323</u>	<u>7,561,092</u>	<u>6,471,634</u>
<b>Fund Balance, End of Year</b>	<u>\$ 15,457,303</u>	<u>\$ 12,781,888</u>	<u>\$ 10,404,062</u>	<u>\$ 9,204,323</u>	<u>\$ 7,561,092</u>
<b>Total Active Retail Water Connections</b>	<u>7,134</u>	<u>6,720</u>	<u>6,228</u>	<u>5,587</u>	<u>4,942</u>
<b>Total Active Retail Wastewater Connections</b>	<u>7,044</u>	<u>6,555</u>	<u>6,166</u>	<u>5,472</u>	<u>4,827</u>

**Percent of Fund Total Revenues**

<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
26.0 %	24.9 %	22.3 %	18.8 %	19.1 %
0.8	0.7	0.7	0.9	0.7
24.2	24.1	26.1	26.1	26.0
21.6	20.4	22.8	22.2	22.5
16.5	16.4	14.4	14.2	15.0
1.9	2.5	2.1	3.0	3.2
8.1	10.7	11.3	13.0	11.3
0.8	0.2	0.2	0.2	0.2
0.1	0.1	0.1	1.6	2.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
4.5	4.8	4.8	7.2	7.4
15.5	15.9	14.5	14.2	15.1
6.2	3.5	3.8	4.3	5.0
23.8	24.4	26.3	23.8	21.6
1.8	2.3	2.7	3.6	4.9
15.2	14.5	16.6	15.2	17.4
2.9	2.9	4.0	4.2	4.6
3.9	4.4	6.4	5.7	5.0
3.0	2.8	6.0	1.7	3.7
1.4	1.0	0.9	-	-
-	-	-	-	0.3
<u>78.2</u>	<u>76.5</u>	<u>86.0</u>	<u>79.9</u>	<u>85.0</u>
<u><u>21.8 %</u></u>	<u><u>23.5 %</u></u>	<u><u>14.0 %</u></u>	<u><u>20.1 %</u></u>	<u><u>15.0 %</u></u>

**Harris County Municipal Utility District No. 165**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended September 30,**

	Amounts				
	2017	2016	2015	2014	2013
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 10,747,674	\$ 9,533,589	\$ 8,191,893	\$ 6,238,746	\$ 5,660,030
Penalty and interest	84,970	106,970	106,260	68,191	59,389
Investment income	66,477	21,234	19,470	17,729	21,820
Total revenues	<u>10,899,121</u>	<u>9,661,793</u>	<u>8,317,623</u>	<u>6,324,666</u>	<u>5,741,239</u>
<b>Expenditures</b>					
Current:					
Professional fees	37,960	23,879	26,551	16,682	25,400
Contracted services	195,855	186,773	162,168	139,151	126,465
Other expenditures	8,922	8,643	8,145	6,146	6,238
Debt service:					
Principal retirement	2,675,000	7,650,000	2,210,000	1,855,000	1,765,000
Interest and fees	3,683,603	4,191,870	3,443,105	3,606,241	3,549,097
Debt issuance costs	-	-	1,428,877	241,633	-
Debt defeasance	-	-	315,000	160,000	-
Total expenditures	<u>6,601,340</u>	<u>12,061,165</u>	<u>7,593,846</u>	<u>6,024,853</u>	<u>5,472,200</u>
<b>Excess (Deficiency) of Revenues</b>					
<b>Over Expenditures</b>	<u>4,297,781</u>	<u>(2,399,372)</u>	<u>723,777</u>	<u>299,813</u>	<u>269,039</u>
<b>Other Financing Sources (Uses)</b>					
General obligation bonds issued	-	-	49,045,000	6,715,000	210
Payments to escrow agent	-	-	(49,986,802)	(6,748,783)	-
Premium on debt issued	-	-	2,385,247	286,520	-
Total other financing sources	<u>0</u>	<u>0</u>	<u>1,443,445</u>	<u>252,737</u>	<u>210</u>
<b>Excess (Deficiency) of Revenues and Other</b>					
<b>Financing Sources Over Expenditures</b>					
<b>and Other Financing Uses</b>	4,297,781	(2,399,372)	2,167,222	552,550	269,249
<b>Fund Balance, Beginning of Year</b>	<u>6,531,841</u>	<u>8,931,213</u>	<u>6,763,991</u>	<u>6,211,441</u>	<u>5,942,192</u>
<b>Fund Balance, End of Year</b>	<u>\$ 10,829,622</u>	<u>\$ 6,531,841</u>	<u>\$ 8,931,213</u>	<u>\$ 6,763,991</u>	<u>\$ 6,211,441</u>

**Percent of Fund Total Revenues**

<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
98.6 %	98.7 %	98.5 %	98.6 %	98.6 %
0.8	1.1	1.3	1.1	1.0
0.6	0.2	0.2	0.3	0.4
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.3	0.2	0.3	0.3	0.4
1.8	1.9	1.9	2.2	2.2
0.1	0.1	0.1	0.1	0.1
24.5	79.2	26.6	29.3	30.7
33.8	43.4	41.4	57.0	61.8
-	-	17.2	3.8	-
-	-	3.8	2.5	-
<u>60.5</u>	<u>124.8</u>	<u>91.3</u>	<u>95.2</u>	<u>95.2</u>
<u>39.5 %</u>	<u>(24.8) %</u>	<u>8.7 %</u>	<u>4.8 %</u>	<u>4.8 %</u>



**Harris County Municipal Utility District No. 165**  
**Board Members, Key Personnel and Consultants**  
**Year Ended September 30, 2017**

Complete District mailing address:	Harris County Municipal Utility District No. 165 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	May 16, 2016
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Alan Bentson	Elected 05/16- 05/20	\$ 3,600	\$ 2,036	President
David Molina	Elected 05/14- 05/18	7,200	4,459	Vice President
Wayne Green	Elected 05/14- 05/18	2,400	1,232	Secretary
Keith Earl Maddox	Elected 05/14- 05/18	7,200	2,755	Assistant Vice President
Janet Davidson	Elected 05/16- 05/20	2,400	2,886	Assistant Secretary

\*Fees are the amounts actually paid to a director during the District's fiscal year.

**Harris County Municipal Utility District No. 165**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended September 30, 2017**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
Allen Boone Humphries Robinson LLP	07/28/03	\$ 915,915	Attorney
BKD, LLP	06/27/85	77,700	Auditor
DAC Services, Inc.	06/02/11	700,904	Engineer
H2O Consulting, Inc.	06/01/12	2,196,727	Operator
Harris County Appraisal District	Legislative Action	102,946	Appraiser
Bob Leared	01/04/79	96,413	Tax Assessor/ Collector
Myrtle Cruz, Inc.	03/01/04	42,763	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/25/85	37,960	Delinquent Tax Attorney
Robert W. Baird & Co.	02/05/15	529,463	Financial Advisor
<b>Investment Officer</b>			
Alan Bentson	06/03/10	N/A	Director