

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 238
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
AUGUST 31, 2017

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November 28, 2017

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 238
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Harris County Municipal Utility District No. 238, as of and for the year ended August 31, 2017, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Municipal Utility District No. 238 as of August 31, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 21, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 22 to 41 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm except for the years ended August 31, 2015 which were audited by other independent auditors whose opinion dated November 24, 2015 expressed an unqualified opinion on those financial statements.

Wolfe & Cozine, PLLC

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Municipal Utility District No. 238 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended August 31, 2017.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

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

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that the expenditures in the funds are billed to the participants in accordance with the contract. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current and other assets	\$ 4,733,236	\$ 4,230,275	\$ 502,961
Capital assets	11,967,378	12,155,335	(187,957)
Total assets	<u>16,700,614</u>	<u>16,385,610</u>	<u>315,004</u>
Long-term liabilities	16,759,308	17,278,527	(519,219)
Other liabilities	1,682,396	1,664,254	18,142
Total liabilities	<u>18,441,704</u>	<u>18,942,781</u>	<u>(501,077)</u>
Net position:			
Invested in capital assets, net of related debt	(5,792,968)	(6,105,019)	312,051
Restricted	1,778,831	1,617,604	161,227
Unrestricted	2,273,047	1,930,244	342,803
Total net position	<u>\$ (1,741,090)</u>	<u>\$ (2,557,171)</u>	<u>\$ 816,081</u>

Summary of Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 2,383,433	\$ 2,566,850	\$ (183,417)
Charges for services	1,720,734	1,688,968	31,766
Other revenues	25,016	12,533	12,483
Total revenues	<u>4,129,183</u>	<u>4,268,351</u>	<u>(139,168)</u>
Expenses:			
Service operations	2,272,729	2,140,672	132,057
Debt service	1,040,373	898,513	141,860
Total expenses	<u>3,313,102</u>	<u>3,039,185</u>	<u>273,917</u>
Change in net position	816,081	1,229,166	(413,085)
Net position, beginning of year	<u>(2,557,171)</u>	<u>(3,786,337)</u>	<u>1,229,166</u>
Net position, end of year	<u>\$ (1,741,090)</u>	<u>\$ (2,557,171)</u>	<u>\$ 816,081</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended August 31, 2017, were \$4,237,926, an increase of \$485,380 from the prior year.

The General Fund balance increased by \$343,998, in accordance with the District's financial plan.

The Debt Service Fund balance increased by \$141,382, in accordance with the District's financial plan.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 21 of this report. The budgetary fund balance as of August 31, 2017, was expected to be \$2,195,862 and the actual end of year fund balance was \$2,262,365.

Capital Asset and Debt Administration

Capital Assets

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land, easements and detention ponds	\$ 1,536,811	\$ 1,536,811	\$ 0
Construction in progress	0	83,063	(83,063)
Water facilities	3,886,004	3,786,976	99,028
Sewer facilities	<u>6,544,563</u>	<u>6,748,485</u>	<u>(203,922)</u>
Totals	<u>\$ 11,967,378</u>	<u>\$ 12,155,335</u>	<u>\$ (187,957)</u>

Changes to capital assets during the fiscal year ended August 31, 2017, are summarized as follows:

Additions:		
Water Plant No. 1 recoating		\$ 151,483
Water system improvements and replacements		20,366
Sanitary sewer system replacements		<u>55,494</u>
Total additions to capital assets		227,343
Decreases:		
Depreciation		<u>(415,300)</u>
Net change to capital assets		<u>\$ (187,957)</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended August 31, 2017, are summarized as follows:

Bonded debt payable, beginning of year	\$ 18,665,000
Refunding bonds sold	6,300,000
Bonds refunded	(6,420,000)
Bonds paid	<u>(1,025,000)</u>
Bonded debt payable, end of year	<u>\$ 17,520,000</u>

On October 26, 2016, the District issued \$6,300,000 in unlimited tax refunding bonds to advance refund \$6,420,000 of outstanding Series 2008 and 2010 bonds. The net proceeds of \$6,836,327 (after payment of \$287,284 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the liability for these bonds has been removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$680,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$550,000.

At August 31, 2017, the District had \$17,680,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of A- from Standard & Poor's. The Series 2010, 2012 and 2014 bonds are not insured. The Series 2010 refunding and 2011 bonds are insured by Assured Guaranty Municipal Corp. Because of the insurance, these bonds are rated AA by Standard & Poor's. The Series 2016 bonds are insured by National Public Finance Guarantee Corporation. Because of the insurance, these bonds are rated A by Standard & Poor's. There were no changes in the bond ratings during the fiscal year ended August 31, 2017.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$26,830,000 for the 2016 tax year (about 7%) primarily due to the increase in the valuation of existing property in the District.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston without the District's consent, subject to the agreement described below. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of December 19, 2011. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use Tax, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City has imposed a Sales and Use Tax within the boundaries of the areas subject to the limited-purpose annexation by the City of Houston. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the such areas and received by the City from the Comptroller of Public Accounts of the State of Texas.

Water Supply Issues

The District is within the Harris-Galveston Subsidence District (the "Subsidence District") Regulatory Area No. 3. The Subsidence District regulates the withdrawal of groundwater within its jurisdiction. The District's authority to pump ground water from its well is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas of suburban Houston to convert most of their water supply to surface water under various schedules. Beginning in January 2003, the District was required to have a groundwater reduction plan ("GRP"), approved by the Subsidence District and by January 2005, the District must have provided evidence to the Subsidence District that construction of the infrastructure defined within the District's certified groundwater reduction plan has started. The Subsidence District designated January 2010, as the date required for the District to restrict the withdrawal of ground water and convert 30% of its total water use to surface water; January 2025, as the date required for the District to restrict the withdrawal of ground water and convert 60% of its total water use to surface water and January 2035, as the date required for the District to restrict the withdrawal of ground water and convert 80% of its total water use to surface water. If the District does not meet the requirements of the Subsidence District, the District may be required to pay the disincentive fees adopted by the Subsidence District.

In May, 2001, the Texas Legislature created the West Harris County Regional Water Authority (the "Authority") and included the District within the boundaries of the Authority. The Authority was created to provide a regional entity to build the necessary facilities to meet the subsidence District's requirements for conversion from ground water to surface water of all permit holders within its boundaries, including the District. Accordingly, the District is required to pay groundwater reduction plan fees to the Authority, and in turn is entitled to rely upon the Authority's GRP to achieve compliance with the subsidence District's requirements. In accordance with the GRP, the Authority has negotiated a water supply contract with the City of Houston and has issued revenue bonds to finance the surface water supply system. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. The Authority's surface water pumpage fee was equal to \$2.45 as of August 31, 2017, and is expected to increase in the future. The Authority's surface water usage fee was equal to \$2.85 as of August 31, 2017, and is expected to increase in the future.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates that it will pass such fees through to its customers in higher water rates. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds. In the event the Authority fails to commence construction of surface water infrastructure by the deadline established by the Subsidence District, the District and others within the Authority's GRP group could be required to pay the disincentive fee on withdrawn groundwater. This disincentive fee is substantial, and the District expects it would need to pass such fee through to its customers in higher water rates. This disincentive fee would be in addition to the Authority's fee.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

AUGUST 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 161,974	\$ 50,350	\$	\$ 212,324	\$	\$ 212,324
Certificates of deposit, at cost, Note 7	1,660,000	1,680,000		3,340,000		3,340,000
Temporary investments, at cost, Note 7	718,894	248,917		967,811		967,811
Receivables:						
Property taxes	10,682	33,501		44,183		44,183
Accrued penalty and interest on property taxes				0	10,190	10,190
Service accounts	151,055			151,055		151,055
Accrued interest	3,600	3,853		7,453		7,453
Other	220			220		220
Maintenance taxes collected not yet transferred from other fund	1,383			1,383	(1,383)	0
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	1,536,811	1,536,811
Depreciable capital assets				0	10,430,567	10,430,567
Total assets	<u>\$2,707,808</u>	<u>\$2,016,621</u>	<u>\$ 0</u>	<u>\$ 4,724,429</u>	<u>11,976,185</u>	<u>16,700,614</u>
LIABILITIES						
Accounts payable	\$ 165,221	\$ 6,176	\$	\$ 171,397		171,397
Accrued interest payable				0	240,421	240,421
Customer deposits	269,540			269,540		269,540
Maintenance taxes collected not yet transferred to other fund		1,383		1,383	(1,383)	0
Long-term liabilities, Note 5:						
Due within one year				0	1,001,038	1,001,038
Due in more than one year				0	16,759,308	16,759,308
Total liabilities	<u>434,761</u>	<u>7,559</u>	<u>0</u>	<u>442,320</u>	<u>17,999,384</u>	<u>18,441,704</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>10,682</u>	<u>33,501</u>	<u>0</u>	<u>44,183</u>	<u>(44,183)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Assigned to debt service		1,975,561		1,975,561	(1,975,561)	0
Unassigned	<u>2,262,365</u>			<u>2,262,365</u>	<u>(2,262,365)</u>	<u>0</u>
Total fund balances	<u>2,262,365</u>	<u>1,975,561</u>	<u>0</u>	<u>4,237,926</u>	<u>(4,237,926)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$2,707,808</u>	<u>\$2,016,621</u>	<u>\$ 0</u>	<u>\$ 4,724,429</u>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(5,792,968)	(5,792,968)
Restricted for debt service					1,778,831	1,778,831
Unrestricted					<u>2,273,047</u>	<u>2,273,047</u>
Total net position					<u>\$ (1,741,090)</u>	<u>\$ (1,741,090)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED AUGUST 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 613,284	\$ 1,757,559	\$	\$ 2,370,843	\$ (9,784)	\$ 2,361,059
Water service	484,166			484,166		484,166
Sewer service	466,448			466,448		466,448
Surface water fees, Note 9	684,290			684,290		684,290
Penalty and interest	76,803	28,954		105,757	(6,580)	99,177
Interest on deposits and investments	12,694	12,322		25,016		25,016
Other	9,027			9,027		9,027
Total revenues	2,346,712	1,798,835	0	4,145,547	(16,364)	4,129,183
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	173,563	8,552		182,115		182,115
Contracted services	159,242	52,303		211,545		211,545
Utilities	137,321			137,321		137,321
Surface water fees, Note 9	664,726			664,726		664,726
Repairs and maintenance	407,055			407,055		407,055
Other operating expenditures	153,814			153,814		153,814
Administrative expenditures	79,650	21,203		100,853		100,853
Depreciation				0	415,300	415,300
Capital outlay / non-capital outlay	227,343			227,343	(227,343)	0
Debt service:						
Principal retirement		1,025,000		1,025,000	(1,025,000)	0
Bond issuance expenditures				0	287,284	287,284
Interest and fees		616,974		616,974	136,115	753,089
Total expenditures / expenses	2,002,714	1,724,032	0	3,726,746	(413,644)	3,313,102
Excess (deficiency) of revenues over expenditures	343,998	74,803	0	418,801	397,280	816,081
OTHER FINANCING SOURCES (USES)						
Bonds issued, Note 5		6,300,000		6,300,000	(6,300,000)	0
Bond issuance premium, Note 5		890,190		890,190	(890,190)	0
Refunding bond issuance expenditures, Note 5		(287,284)		(287,284)	287,284	0
Payment to refunding escrow agent, Note 5		(6,836,327)		(6,836,327)	6,836,327	0
Total other financing sources (uses)	0	66,579	0	66,579	(66,579)	0
Net change in fund balances / net position	343,998	141,382	0	485,380	330,701	816,081
Beginning of year	1,918,367	1,834,179	0	3,752,546	(6,309,717)	(2,557,171)
End of year	\$ 2,262,365	\$ 1,975,561	\$ 0	\$ 4,237,926	\$ (5,979,016)	\$ (1,741,090)

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238NOTES TO THE FINANCIAL STATEMENTSAUGUST 31, 2017

NOTE 1: REPORTING ENTITY

Harris County Municipal Utility District No. 238 (the "District") was created by an order of the Texas Water Commission (now the Texas Commission on Environmental Quality) effective December 2, 1982, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on November 9, 1984, and the first bonds were sold on May 21, 2002. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are either nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 4,237,926
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		11,967,378
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (17,520,000)	
Less: Deferred charge on refunding (to be amortized as interest expense)	657,914	
Add: Issuance premium, net of discount (to be amortized as interest expense)	<u>(898,260)</u>	(17,760,346)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	10,190	
Uncollected property taxes	<u>44,183</u>	54,373
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(240,421)</u>
Net position, end of year		<u>\$ (1,741,090)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ 485,380
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 227,343	
Depreciation	<u>(415,300)</u>	(187,957)
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Bonds issued	(6,300,000)	
Principal reduction	1,025,000	
Payment to escrow agent for refunding	<u>6,836,327</u>	1,561,327
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(44,202)	
Issuance premium, net of discount	<u>(1,017,117)</u>	(1,061,319)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	(6,580)	
Uncollected property taxes	<u>(9,784)</u>	(16,364)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>35,014</u>
Change in net position		<u>\$ 816,081</u>

NOTE 4: CAPITAL ASSETS

At August 31, 2017, "Invested in capital assets, net of related debt" was \$(5,792,968). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended August 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land, easements and detention ponds	\$ 1,536,811	\$	\$	\$ 1,536,811
Construction in progress	<u>83,063</u>		<u>83,063</u>	<u>0</u>
Total capital assets not being depreciated	<u>1,619,874</u>	<u>0</u>	<u>83,063</u>	<u>1,536,811</u>
Depreciable capital assets:				
Water system	5,845,627	254,912		6,100,539
Sewer system	<u>9,853,984</u>	<u>55,494</u>		<u>9,909,478</u>
Total depreciable capital assets	<u>15,699,611</u>	<u>310,406</u>	<u>0</u>	<u>16,010,017</u>
Less accumulated depreciation for:				
Water system	(2,058,651)	(155,884)		(2,214,535)
Sewer system	<u>(3,105,499)</u>	<u>(259,416)</u>		<u>(3,364,915)</u>
Total accumulated depreciation	<u>(5,164,150)</u>	<u>(415,300)</u>	<u>0</u>	<u>(5,579,450)</u>
Total depreciable capital assets, net	<u>10,535,461</u>	<u>(104,894)</u>	<u>0</u>	<u>10,430,567</u>
Total capital assets, net	<u>\$ 12,155,335</u>	<u>\$ (104,894)</u>	<u>\$ 83,063</u>	<u>\$ 11,967,378</u>
Changes to capital assets:				
Capital outlay		\$ 227,343	\$	
Assets transferred to depreciable assets		83,063	83,063	
Less depreciation expense for the fiscal year		<u>(415,300)</u>		
Net increases / decreases to capital assets		<u>\$ (104,894)</u>	<u>\$ 83,063</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended August 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 18,665,000	\$ 6,300,000	\$ 7,445,000	\$ 17,520,000	\$ 1,070,000
Less deferred amounts:					
For issuance (discounts)/premiums	(118,857)	890,190	(126,927)	898,260	11,798
For refunding	<u>(285,789)</u>	<u>(416,327)</u>	<u>(44,202)</u>	<u>(657,914)</u>	<u>(80,760)</u>
Total bonds payable	<u>18,260,354</u>	<u>6,773,863</u>	<u>7,273,871</u>	<u>17,760,346</u>	<u>1,001,038</u>
Total long-term liabilities	<u>\$ 18,260,354</u>	<u>\$ 6,773,863</u>	<u>\$ 7,273,871</u>	<u>\$ 17,760,346</u>	<u>\$ 1,001,038</u>
Bonds payable, beginning of year				\$ 18,665,000	
Bonds paid				(1,025,000)	
Refunding bonds sold:					
Proceeds			\$ 7,190,190		
Premium			<u>(890,190)</u>	6,300,000	
Bonds refunded				<u>(6,420,000)</u>	
Bonds payable, end of year				<u>\$ 17,520,000</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,070,000	\$ 575,054	\$ 1,645,054
2019	1,370,000	548,777	1,918,777
2020	1,150,000	515,567	1,665,567
2021	1,190,000	479,988	1,669,988
2022	1,260,000	443,032	1,703,032
2023 - 2027	6,995,000	1,624,359	8,619,359
2028 - 2031	<u>4,485,000</u>	<u>401,200</u>	<u>4,886,200</u>
	<u>\$ 17,520,000</u>	<u>\$ 4,587,977</u>	<u>\$ 22,107,977</u>

Bonds voted	\$ 48,295,000
Bonds approved for sale and sold	30,615,000
Bonds voted and not issued	17,680,000
Refunding bonds voted	39,955,000
Refunding bonds approved for sale and sold	2,729,638
Refunding bonds voted and not issued	37,225,362

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

	<u>Series 2010</u>	<u>Refunding Series 2010</u>	<u>Series 2011</u>
Amounts outstanding, August 31, 2017	\$65,000	\$1,170,000	\$1,675,000
Interest rates	3.60% to 3.75%	4.00%	3.00% to 4.00%
Maturity dates, serially/ beginning/ending	April 1, 2018/2019	April 1, 2018/2021	April 1, 2018/2031
Interest payment dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable dates	April 1, 2019*	April 1, 2018*	April 1, 2019*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Refunding Series 2012</u>	<u>Refunding Series 2014</u>	<u>Refunding Series 2016</u>
Amounts outstanding, August 31, 2017	\$7,270,000	\$1,040,000	\$6,300,000
Interest rates	2.91%	1.506%	2.00% to 4.00%
Maturity dates, serially beginning/ending	April 1, 2018/2016	April 1/October 1, 2018/2019	April 1, 2018/2031
Interest payment dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable dates	Not Callable	Not Callable	April 1, 2026*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

**On October 26, 2016, the District issued \$6,300,000 in unlimited tax refunding bonds to advance refund \$6,420,000 of outstanding Series 2008 and 2010 bonds. The net proceeds of \$6,836,327 (after payment of \$287,284 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the liability for these bonds has been removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$680,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$550,000.

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

At an election held September 24, 1983, the voters within the District authorized a maintenance tax not to exceed \$0.50 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On October 25, 2016 the District levied the following ad valorem taxes for the 2016 tax year on the adjusted taxable valuation of \$437,460,084:

	Rate	Amount
Debt service	\$ 0.4000	\$ 1,749,831
Maintenance	0.1400	612,441
	\$ 0.5400	\$ 2,362,272

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

2016 tax year total property tax levy	\$ 2,362,272
Appraisal district adjustments to prior year taxes	(1,213)
Statement of Activities property tax revenues	\$ 2,361,059

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

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

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

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in the authorized private sector investment pool was \$967,811.

Deposits and temporary investments restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash	\$ 50,350
Certificates of deposit	1,680,000
Temporary investments	248,917
	\$ 1,979,267

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At August 31, 2017, the District had physical damage and boiler and machinery coverage of \$12,470,000, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, worker's compensation coverage of \$1,000,000, consultant's crime coverage of \$50,000 and a tax assessor-collector bond of \$10,000.

NOTE 9: REGIONAL WATER AUTHORITY

The West Harris County Regional Water Authority (the "Authority") was created by House Bill 1842, Acts of the 77th Legislature, Regular Session 2003. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of August 31, 2017, the Authority had established a well pumpage fee of \$2.45 per 1,000 gallons of water pumped from each regulated well and surface water usage fees of \$2.85 per 1,000 gallons. The surface water fees payable by the District to the Authority for the fiscal year ended August 31, 2017, were \$664,726. The District billed its customers \$684,290 during the fiscal year to pay for the fees charged by the Authority.

NOTE 10: STRATEGIC PARTNERSHIP AGREEMENT

Effective December 19, 2011, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement.

The City has imposed a Sales and Use Tax within the boundaries of the areas subject to the limited-purpose annexation by the City of Houston. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the such areas and received by the City from the Comptroller of Public Accounts of the State of Texas. The District did not receive any Sales and Use Tax revenues during the fiscal year ended August 31, 2017.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 602,400	\$ 602,400	\$ 613,284	\$ 10,884
Water service	521,700	521,700	484,166	(37,534)
Sewer service	470,600	470,600	466,448	(4,152)
Surface water fees	658,600	658,600	684,290	25,690
Penalty	70,000	70,000	76,803	6,803
Interest on deposits and investments	8,280	8,280	12,694	4,414
Other revenues	<u>17,565</u>	<u>17,565</u>	<u>9,027</u>	<u>(8,538)</u>
TOTAL REVENUES	<u>2,349,145</u>	<u>2,349,145</u>	<u>2,346,712</u>	<u>(2,433)</u>
EXPENDITURES				
Service operations:				
Professional fees	143,250	143,250	173,563	30,313
Contracted services	154,900	154,900	159,242	4,342
Utilities	131,600	131,600	137,321	5,721
Surface water fees	658,600	658,600	664,726	6,126
Repairs and maintenance	410,100	410,100	407,055	(3,045)
Other operating expenditures	134,200	134,200	153,814	19,614
Administrative expenditures	89,000	89,000	79,650	(9,350)
Capital outlay	<u>350,000</u>	<u>350,000</u>	<u>227,343</u>	<u>(122,657)</u>
TOTAL EXPENDITURES	<u>2,071,650</u>	<u>2,071,650</u>	<u>2,002,714</u>	<u>(68,936)</u>
EXCESS REVENUES (EXPENDITURES)	277,495	277,495	343,998	66,503
FUND BALANCE, BEGINNING OF YEAR	<u>1,918,367</u>	<u>1,918,367</u>	<u>1,918,367</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,195,862</u>	<u>\$ 2,195,862</u>	<u>\$ 2,262,365</u>	<u>\$ 66,503</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

AUGUST 31, 2017

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

SCHEDULE OF SERVICES AND RATES

AUGUST 31, 2017

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$14.50	10,000	N	\$1.00 1.25	10,001 to 20,000 Over 20,000
WASTEWATER:	\$15.50		Y		

SURCHARGE: \$2.85 per 1,000 gallons of water used. – WHCRWA surface water fees.

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$14.50 Wastewater: \$15.50 Surcharge: \$28.50

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

SCHEDULE OF SERVICES AND RATES (Continued)

AUGUST 31, 2017

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	2,574	2,561	1.0	2,561
1"	17	17	2.5	43
1-1/2"	0	0	5.0	0
2"	0	0	8.0	0
3"	0	0	15.0	0
4"	0	0	25.0	0
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>2,591</u>	<u>2,578</u>		<u>2,604</u>
Total Wastewater	<u>2,574</u>	<u>2,561</u>	1.0	<u>2,561</u>

*Single family equivalents

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

Gallons pumped into system (unaudited): 262,640
 Gallons billed to customers (unaudited): 247,823

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 94%

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

Does the District have Debt Service standby fees? Yes No

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

EXPENDITURES

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 9,750	\$	\$	\$ 9,750
Legal	87,401	8,552		95,953
Engineering	76,412			76,412
	<u>173,563</u>	<u>8,552</u>	<u>0</u>	<u>182,115</u>
Contracted services:				
Bookkeeping	25,476			25,476
Operation and billing	133,766			133,766
Tax assessor-collector		34,407		34,407
Central appraisal district		17,896		17,896
	<u>159,242</u>	<u>52,303</u>	<u>0</u>	<u>211,545</u>
Utilities	<u>137,321</u>	<u>0</u>	<u>0</u>	<u>137,321</u>
Surface water fees:				
Ground water pumpage fees	362,399			362,399
Purchased surface water	302,327			302,327
	<u>664,726</u>	<u>0</u>	<u>0</u>	<u>664,726</u>
Repairs and maintenance	<u>407,055</u>	<u>0</u>	<u>0</u>	<u>407,055</u>
Other operating expenditures:				
Sludge hauling	54,130			54,130
Chemicals	53,615			53,615
Laboratory costs	27,985			27,985
Reconnection costs	7,020			7,020
TCEQ assessment	4,913			4,913
Other	6,151			6,151
	<u>153,814</u>	<u>0</u>	<u>0</u>	<u>153,814</u>
Administrative expenditures:				
Director's fees	10,800			10,800
Office supplies and postage	16,216			16,216
Insurance	24,211	100		24,311
Permits	10,364			10,364
Other	18,059	21,103		39,162
	<u>79,650</u>	<u>21,203</u>	<u>0</u>	<u>100,853</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

EXPENDITURES (Continued)

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	\$ 227,343	\$ 0	\$ 0	\$ 227,343
DEBT SERVICE				
Principal retirement	0	1,025,000	0	1,025,000
Interest and fees:				
Interest		615,374		615,374
Paying agent fees		1,600		1,600
	<u>0</u>	<u>616,974</u>	<u>0</u>	<u>616,974</u>
TOTAL EXPENDITURES	<u>\$ 2,002,714</u>	<u>\$ 1,724,032</u>	<u>\$ 0</u>	<u>\$ 3,726,746</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 1,729,160	\$ 1,798,678	\$	\$ 3,527,838
Maintenance tax receipts		613,284		613,284
Transfer of maintenance taxes	625,577			625,577
Proceeds from sale of bonds		7,190,190		7,190,190
Increase in customer deposits	43,754			43,754
Overpayments from taxpayers		<u>14,366</u>		<u>14,366</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>2,398,491</u>	<u>9,616,518</u>	<u>0</u>	<u>12,015,009</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	1,787,333	80,981		1,868,314
Capital outlay	227,343			227,343
Debt service		1,641,974		1,641,974
Payment to refunding escrow agent		6,836,327		6,836,327
Refunding bond issuance expenditures		287,284		287,284
Transfer of maintenance taxes		625,577		625,577
Refund of taxpayer overpayments		<u>13,290</u>		<u>13,290</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>2,014,676</u>	<u>9,485,433</u>	<u>0</u>	<u>11,500,109</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	383,815	131,085	0	514,900
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>2,157,053</u>	<u>1,848,182</u>	<u>0</u>	<u>4,005,235</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 2,540,868</u>	<u>\$ 1,979,267</u>	<u>\$ 0</u>	<u>\$ 4,520,135</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

AUGUST 31, 2017

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 1002849785	0.75%	6/15/18	\$ 240,000	\$ 459
No. 11810	0.75%	4/05/18	240,000	557
No. 62099	1.00%	5/10/18	240,000	743
No. 80000022	0.65%	1/20/18	100,000	228
No. 80000487	0.65%	2/19/18	100,000	228
No. 13739	0.40%	9/12/17	100,000	216
No. 14930	0.40%	10/14/17	100,000	216
No. 321600185	0.66%	3/21/18	100,000	231
No. 6000023413	0.40%	11/21/17	100,000	173
No. 6000025855	0.40%	12/22/17	100,000	173
No. 8069	0.65%	7/15/18	<u>240,000</u>	<u>376</u>
			<u>\$ 1,660,000</u>	<u>\$ 3,600</u>
Texas CLASS				
No. TX-01-0380-0001	Market	On demand	<u>\$ 718,894</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 1003013595	0.65%	3/06/18	\$ 240,000	\$ 483
No. 100142165	0.65%	3/24/18	240,000	684
No. 11811	0.75%	3/07/18	240,000	557
No. 62102	0.75%	3/06/18	240,000	557
No. 80000524	0.65%	3/06/18	240,000	483
No. 12746	0.40%	9/15/17	240,000	431
No. 3116003260	0.61%	9/15/17	<u>240,000</u>	<u>658</u>
			<u>\$ 1,680,000</u>	<u>\$ 3,853</u>
Texas CLASS				
No. TX-01-0380-0002	Market	On demand	<u>\$ 248,917</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 4,307,811</u>	<u>\$ 7,453</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 11,877	\$ 42,090
Additions and corrections to prior year taxes	<u>(352)</u>	<u>(861)</u>
Adjusted receivable, beginning of year	11,525	41,229
2016 ADJUSTED TAX ROLL	<u>612,441</u>	<u>1,749,831</u>
Total to be accounted for	623,966	1,791,060
Tax collections: Current tax year	(607,279)	(1,735,084)
Prior tax years	<u>(6,005)</u>	<u>(22,475)</u>
RECEIVABLE, END OF YEAR	<u>\$ 10,682</u>	<u>\$ 33,501</u>
RECEIVABLE, BY TAX YEAR		
2008	\$ 121	\$ 869
2009	107	751
2010	111	776
2011	116	711
2012	576	2,502
2013	1,246	4,259
2014	1,470	4,553
2015	1,773	4,333
2016	<u>5,162</u>	<u>14,747</u>
RECEIVABLE, END OF YEAR	<u>\$ 10,682</u>	<u>\$ 33,501</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED AUGUST 31, 2017

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 69,428,560	\$ 69,474,682	\$ 69,845,795	\$ 68,953,704
Improvements	398,170,795	369,411,771	327,298,525	275,246,754
Personal property	5,578,824	7,542,023	6,590,085	5,977,187
Less exemptions	<u>(35,718,095)</u>	<u>(35,796,798)</u>	<u>(12,030,398)</u>	<u>(11,553,032)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 437,460,084</u>	 <u>\$ 410,631,678</u>	 <u>\$ 391,704,007</u>	 <u>\$ 338,624,613</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.40000	\$ 0.44000	\$ 0.48000	\$ 0.53000
Maintenance tax rates*	<u>0.14000</u>	<u>0.18000</u>	<u>0.15500</u>	<u>0.15500</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.54000</u>	 <u>\$ 0.62000</u>	 <u>\$ 0.63500</u>	 <u>\$ 0.68500</u>
 TAX ROLLS	 <u>\$ 2,362,272</u>	 <u>\$ 2,545,841</u>	 <u>\$ 2,487,176</u>	 <u>\$ 2,319,529</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>99.1 %</u>	 <u>99.8 %</u>	 <u>99.8 %</u>	 <u>99.8 %</u>

*Maximum tax rate approved by voters on November 6, 2001: \$1.50

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
AUGUST 31, 2017

<u>Due During Fiscal Years Ending August 31</u>	<u>Series 2010</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2018	\$ 30,000	\$ 2,392	\$ 32,392
2019	35,000	1,313	36,313
TOTALS	<u>\$ 65,000</u>	<u>\$ 3,705</u>	<u>\$ 68,705</u>

<u>Due During Fiscal Years Ending August 31</u>	<u>Series 2010 Refunding</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2018	\$ 275,000	\$ 46,800	\$ 321,800
2019	290,000	35,800	325,800
2020	295,000	24,200	319,200
2021	310,000	12,400	322,400
TOTALS	<u>\$ 1,170,000</u>	<u>\$ 119,200</u>	<u>\$ 1,289,200</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

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

AUGUST 31, 2017

<u>Due During Fiscal Years Ending August 31</u>	<u>Series 2011</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2018	\$ 85,000	\$ 62,400	\$ 147,400
2019	90,000	59,850	149,850
2020	90,000	57,150	147,150
2021	95,000	54,450	149,450
2022	100,000	51,600	151,600
2023	110,000	48,600	158,600
2024	115,000	44,200	159,200
2025	120,000	39,600	159,600
2026	125,000	34,800	159,800
2027	135,000	29,800	164,800
2028	140,000	24,400	164,400
2029	150,000	18,800	168,800
2030	155,000	12,800	167,800
2031	165,000	6,600	171,600
TOTALS	<u>\$ 1,675,000</u>	<u>\$ 545,050</u>	<u>\$ 2,220,050</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

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

AUGUST 31, 2017

Series 2012			
Due During Fiscal Years Ending August 31	Principal Due April 1	Interest Due October 1, April 1	Total
2018	\$ 65,000	\$ 211,557	\$ 276,557
2019	335,000	209,666	544,666
2020	635,000	199,917	834,917
2021	660,000	181,438	841,438
2022	1,040,000	162,232	1,202,232
2023	1,075,000	131,968	1,206,968
2024	1,110,000	100,686	1,210,686
2025	1,150,000	68,385	1,218,385
2026	1,200,000	34,920	1,234,920
TOTALS	\$ 7,270,000	\$ 1,300,769	\$ 8,570,769

Series 2014			
Due During Fiscal Years Ending August 31	Principal Due October 1/ April 1	Interest Due October 1, April 1	Total
2018	\$ 515,000	\$ 13,705	\$ 528,705
2019	525,000	5,948	530,948
TOTALS	\$ 1,040,000	\$ 19,653	\$ 1,059,653

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

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

AUGUST 31, 2017

<u>Due During Fiscal Years Ending August 31</u>	<u>Series 2016</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2018	\$ 100,000	\$ 238,200	\$ 338,200
2019	95,000	236,200	331,200
2020	130,000	234,300	364,300
2021	125,000	231,700	356,700
2022	120,000	229,200	349,200
2023	120,000	225,600	345,600
2024	120,000	222,000	342,000
2025	120,000	218,400	338,400
2026	105,000	214,800	319,800
2027	1,390,000	210,600	1,600,600
2028	1,455,000	155,000	1,610,000
2029	980,000	96,800	1,076,800
2030	710,000	57,600	767,600
2031	730,000	29,200	759,200
TOTALS	<u>\$ 6,300,000</u>	<u>\$ 2,599,600</u>	<u>\$ 8,899,600</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

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

AUGUST 31, 2017

<u>Due During Fiscal Years Ending August 31</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2018	\$ 1,070,000	\$ 575,054	\$ 1,645,054
2019	1,370,000	548,777	1,918,777
2020	1,150,000	515,567	1,665,567
2021	1,190,000	479,988	1,669,988
2022	1,260,000	443,032	1,703,032
2023	1,305,000	406,168	1,711,168
2024	1,345,000	366,886	1,711,886
2025	1,390,000	326,385	1,716,385
2026	1,430,000	284,520	1,714,520
2027	1,525,000	240,400	1,765,400
2028	1,595,000	179,400	1,774,400
2029	1,130,000	115,600	1,245,600
2030	865,000	70,400	935,400
2031	895,000	35,800	930,800
 TOTALS	 \$ 17,520,000	 \$ 4,587,977	 \$ 22,107,977

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED AUGUST 31, 2017

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>
Bond Series:	2008	2010	2010R	2011
Interest Rate:	Not Applicable	3.60% to 3.75%	4.00%	3.00% to 4.00%
Dates Interest Payable:	Not Applicable	October 1/ April 1	October 1/ April 1	October 1/ April 1
Maturity Dates:	Not Applicable	April 1, 2018/2019	April 1, 2018/2021	April 1, 2018/2031
Bonds Outstanding at Beginning of Current Year	\$ 2,700,000	\$ 3,905,000	\$ 1,430,000	\$ 1,755,000
Less Retirements	<u>(2,700,000)</u>	<u>(3,840,000)</u>	<u>(260,000)</u>	<u>(80,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 0</u>	<u>\$ 65,000</u>	<u>\$ 1,170,000</u>	<u>\$ 1,675,000</u>
Current Year Interest Paid	<u>\$ 65,025</u>	<u>\$ 91,033</u>	<u>\$ 57,200</u>	<u>\$ 64,800</u>

Bond Descriptions and Original Amount of Issue

- (1) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2008 (\$5,345,000)
- (2) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2010 (\$4,000,000)
- (3) Harris County Municipal Utility District No. 238 Unlimited Tax Refunding Bonds, Series 2010 (\$3,495,000)
- (4) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2011 (\$2,030,000)

Paying Agent/Registrar

- (1) (2) (3) (4) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 48,295,000	\$ 0	39,955,000
Amount Issued:	30,615,000		2,729,639
Remaining to be Issued:	17,680,000		37,225,361

Net Debt Service Fund deposits and investments balances as of August 31, 2017: \$ 1,975,561
Average annual debt service payment for remaining term of all debt: 1,579,141

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>(5)</u>	<u>(6)</u>	<u>(7)</u>	<u>Totals</u>
Bond Series:	2012	2014	2016	
Interest Rate:	2.91%	1.506%	2.00% to 4.00%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	March 1/ September 1	
Maturity Dates:	April 1/ 2018/2026	April 1/ October 1 2018/2019	April 1/ 2019/2031	
Bonds Outstanding at Beginning of Current Year	\$ 7,335,000	\$ 1,540,000	\$ 0	\$ 18,665,000
Add Bonds Sold			6,300,000	6,300,000
Less Retirements	<u>(65,000)</u>	<u>(500,000)</u>	<u>0</u>	<u>(7,445,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 7,270,000</u>	<u>\$ 1,040,000</u>	<u>\$ 6,300,000</u>	<u>\$ 17,520,000</u>
Current Year Interest Paid	<u>\$ 213,449</u>	<u>\$ 21,310</u>	<u>\$ 102,557</u>	<u>\$ 615,374</u>

Bond Descriptions and Original Amount of Issue

- (5) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2012 (\$7,565,000)
- (6) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2014 (\$1,830,000)
- (7) Harris County Municipal Utility District No. 238 Unlimited Tax Refunding Bonds, Series 2016 (\$6,300,000)

Paying Agent/Registrar

- (5) (6) (7) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED AUGUST 31

	AMOUNT*					PERCENT OF TOTAL REVENUES				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
REVENUES										
Property taxes	\$ 613,284	\$ 735,313	\$ 605,196	\$ 522,796	\$ 416,673	26.1 %	30.3 %	27.1 %	23.8 %	20.0 %
Water service	484,166	506,275	488,063	506,753	492,727	20.6	20.8	21.9	23.0	23.6
Sewer service	466,448	454,272	482,928	481,928	467,099	19.9	18.7	21.6	21.8	22.4
Surface water fees	684,290	644,317	550,294	590,269	561,302	29.2	26.5	24.7	26.7	26.9
Penalty	76,803	69,122	85,334	71,007	49,726	3.3	2.8	3.8	3.2	2.4
Tap connection and inspection fees	0	0	0	10,990	66,560	0.0	0.0	0.0	0.5	3.2
Interest on deposits and investments	12,694	6,347	6,644	5,226	3,804	0.5	0.3	0.3	0.2	0.2
Other revenues	9,027	14,982	12,610	17,735	26,101	0.4	0.6	0.6	0.8	1.3
TOTAL REVENUES	2,346,712	2,430,628	2,231,069	2,206,704	2,083,992	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Professional fees	173,563	163,456	125,293	162,647	160,858	7.4	6.7	5.6	7.4	7.7
Contracted services	159,242	153,481	159,756	151,170	135,453	6.8	6.3	7.1	6.8	6.5
Utilities	137,321	130,674	145,203	150,471	140,735	5.9	5.4	6.5	6.8	6.8
Surface water fees	664,726	621,560	564,387	516,767	555,283	28.2	25.5	25.3	23.4	26.6
Repairs and maintenance	407,055	376,066	325,260	316,808	363,067	17.3	15.5	14.6	14.4	17.4
Other operating expenditures	153,814	131,340	234,395	202,193	296,833	6.6	5.4	10.5	9.2	14.2
Administrative expenditures	79,650	83,911				3.4	3.5			
Debt service principal retirement	0	1,000,000	0	0	0	0.0	41.1	0.0	0.0	0.0
Capital outlay	227,343	120,348	164,534	328,074	95,886	9.7	5.0	7.4	14.9	4.6
TOTAL EXPENDITURES	2,002,714	2,780,836	1,718,828	1,828,130	1,748,115	85.3	114.4	77.0	82.9	83.8
EXCESS REVENUES (EXPENDITURES)	\$ 343,998	\$ (350,208)	\$ 512,241	\$ 378,574	\$ 335,877	14.7 %	(14.4) %	23.0 %	17.1 %	16.2 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,578	2,525	2,525	2,525	2,544					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,561	2,508	2,508	2,508	2,531					

*Classifications and amounts prior to 2016 from 2015 Annual Audit Report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
FOR YEARS ENDED AUGUST 31

	<u>AMOUNT*</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES										
Property taxes	\$ 1,757,559	\$ 1,798,926	\$ 1,875,129	\$ 1,788,942	\$ 1,813,901	97.7 %	98.7 %	98.8 %	98.9 %	98.8 %
Penalty and interest and other	28,954	17,626	16,483	12,154	16,934	1.6	1.0	0.9	0.7	0.9
Interest on deposits and investments	<u>12,322</u>	<u>6,186</u>	<u>6,237</u>	<u>6,335</u>	<u>6,320</u>	<u>0.7</u>	<u>0.3</u>	<u>0.3</u>	<u>0.4</u>	<u>0.3</u>
TOTAL REVENUES	<u>1,798,835</u>	<u>1,822,738</u>	<u>1,897,849</u>	<u>1,807,431</u>	<u>1,837,155</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Professional fees	8,552	5,766				0.5	0.3			
Contracted services	52,303	56,214				2.9	3.1			
Other expenditures	21,203	18,424	83,297	71,210	74,359	1.2	1.0	4.4	3.9	4.0
Debt service:										
Principal retirement	1,025,000	1,410,000	725,000	980,000	1,890,000	56.9	77.3	38.2	54.2	102.9
Refunding contribution	0	0	0	24,000	0	0.0	0.0	0.0	1.3	0.0
Interest and fees	<u>616,974</u>	<u>816,007</u>	<u>780,440</u>	<u>865,365</u>	<u>1,123,475</u>	<u>34.3</u>	<u>44.8</u>	<u>41.1</u>	<u>47.9</u>	<u>61.2</u>
TOTAL EXPENDITURES	<u>1,724,032</u>	<u>2,306,411</u>	<u>1,588,737</u>	<u>1,940,575</u>	<u>3,087,834</u>	<u>95.8</u>	<u>126.5</u>	<u>83.7</u>	<u>107.3</u>	<u>168.1</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 74,803</u>	<u>\$ (483,673)</u>	<u>\$ 309,112</u>	<u>\$ (133,144)</u>	<u>\$ (1,250,679)</u>	<u>4.2 %</u>	<u>(26.5) %</u>	<u>16.3 %</u>	<u>(7.3) %</u>	<u>(68.1) %</u>

*Classifications and amounts prior to 2016 from 2015 Annual Audit Report..

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSAUGUST 31, 2017

Complete District Mailing Address: Harris County Municipal Utility District No. 238
c/o Roach & Mitchell, PLLC
2800 Post Oak Blvd., Suite 4100
Houston, Texas 77056

District Business Telephone No.: 832-390-2268

Submission date of the most recent District Registration Form: November 9, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Randy Love c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/07/16- 5/02/20	\$ 2,550	\$ 234	President
Patricia Richardson c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/10/14- 5/05/18	2,400	255	Vice President
C. L. Crane c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/10/14- 5/05/18	1,950	18	Secretary
Gary Nelson c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/07/16- 5/02/20	1,800	0	Assistant Secretary
Michael McGlaughlin c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/10/14- 5/05/18	2,100	76	Director

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

AUGUST 31, 2017

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Roach & Mitchell, PLLC 2800 Post Oak Blvd., Suite 4100 Houston, Texas 77056	12/01/11	\$ 89,915 71,482	Attorney
Ted A. Cox, P.C. 440 Louisiana, Suite 1450 Houston, Texas 77002	2/19/97	8,552	Delinquent Tax Attorney
Municipal Accounts & Consulting, L.P. 1281 Brittmoore Road Houston, Texas 77043	4/16/03	27,801 1,100	Bookkeeper
Mark Burton/Ghia Lewis 1281 Brittmoore Road Houston, Texas 77043	9/16/11	0	Investment Officers
Gulf Utility Service, Inc. 18702 Kieth Harrow Blvd. Houston, TX 77084	9/24/13	650,356	Operator
Van De Wiele & Vogler, Inc. 2925 Briarpark, Suite 275 Houston, Texas 77042	8/10/13	99,395	Engineer
Cathy Wheeler 6935 Barney Road, Suite 110 Houston, Texas 77092	11/14/83	44,121 1,000	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	17,896	Central Appraisal District
Hutchinson, Shockey, Erley & Co. 4545 Post Oak Place, Suite 215 Houston, Texas 77027	9/22/15	107,853	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	8/23/16	9,750	Independent Auditor

See accompanying independent auditor's report.