

McGrath & Co., PLLC

Certified Public Accountants

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April 23, 2018

Board of Directors
Harris and Fort Bend Counties Municipal Utility District No. 3
Harris and Fort Bend Counties, Texas

In planning and performing our audit of the financial statements of governmental activities and each major fund of Harris - Fort Bend Counties Municipal Utility District No. 3 as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal controls exists when the design or operation of a control does not allow management, in the normal course of performing their assigned functions, to prevent, detect or correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The District's management consists of an elected Board of Directors (Directors). Day-to-day operations are performed by private entities (Consultants) under contract with the District. The Board of Directors supervises the performance of the Consultants. The Consultants are not considered to be members of management and as such, Directors are responsible for design and implementation of controls.

Material Weaknesses

We observed the following matters that we consider to be material weaknesses.

- One of the primary controls is related to the preparation of the financial statements. The Board of Directors is responsible for having the financial statements properly prepared and free from potential misstatement. The Board of Directors does not have the requisite knowledge to determine whether the financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). According to generally accepted auditing standards, the absence of this expertise is considered to be a material weakness in internal control over financial reporting, which could result in the District's financial statements and related note disclosures not fully or accurately presenting the District's financial position and changes in financial position during the fiscal year in conformity with U.S. GAAP.
- During the course of performing an audit it is not unusual for the auditor to prepare various journal entries to correct and present the financial statements on both the fund basis and the government-wide basis of accounting. According to generally accepted auditing standards, management's inability to detect these necessary adjustments is considered to be a material weakness in internal control over financial reporting, which could result in misstatements in the District's financial statements.

Management's Response

The District responds that the auditor's Management Letter, and the material weaknesses and/or significant deficiencies identified therein, is prepared in response to the American Institute of Certified Public Accountant's *Professional Standards* (AU-C) Section 265, and is not prompted by any other circumstances identified during the course of the audit and disclosed to the District's Board of Directors ("Board").

As you know, the Board has, since inception of the District, engaged the auditor to perform the District's audit and to prepare the financial statements and capital asset and depreciation schedules upon which the audit is based. It is our understanding that this is the usual and customary practice for smaller special districts in Texas, as it is more cost effective to engage consultants to perform such services than to employ persons (who would constitute district management) to perform same. It is also the Board's understanding that, under AU-C Section 265, the engagement of the auditor to perform these services resulted in the Management Letter because (1) the Board members are not able to prevent, detect, and correct a misstatement in the preparation of the District's financial statements or its capital asset and depreciation schedules or to make adjustments to same, and (2) the Board has not implemented controls to prevent, detect, and correct a misstatement in the preparation of the District's financial statements or capital asset and depreciation schedules, such as the hiring of an employee or the engagement of another consultant to prepare the District's financial statements.

With respect to items (1) and (2) identified above, the Board responds that its members are appointed or elected in accordance with the requirements set forth in the Texas Water Code, and that such

April 23, 2018

members do not necessarily have the ability to prevent, detect, and correct a misstatement in the preparation of the District's financial statements or capital asset and depreciation schedules or to make adjustments to same.

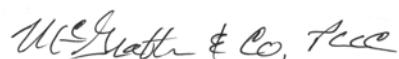
Further, the Board responds that it is a small governmental unit and that it engages the auditor based upon the auditor's professional qualifications, and in light of such qualifications, does not feel that the addition at this time of an employee or the engagement of a consultant to prepare the District's financial statements and capital asset and depreciation schedules (as a form of control) would be cost effective. Additionally, the Board adds that the District does not have any employees, but rather engages consultants who possess industry knowledge and expertise to provide financial services, including its bookkeeper, auditor, and financial advisor, as well as consultants that provide legal, engineering, and operation and maintenance services. In particular, the District's bookkeeper presents periodic financial information (unaudited) to the Board for review, which information generally reflects income, disbursements, adjustments, and the status of investments relative to the District's various accounts.

Conclusion

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



McGrath & Co., PLLC-CPAs

Houston, TX

April 23, 2018

**HARRIS-FORT BEND COUNTIES
MUNICIPAL UTILITY DISTRICT NO. 3**

HARRIS AND FORT BEND COUNTIES, TEXAS

FINANCIAL REPORT

December 31, 2017

Table of Contents

	<u>Schedule</u>	<u>Page</u>
Independent Auditors' Report		1
Management's Discussion and Analysis		5
BASIC FINANCIAL STATEMENTS		
Statement of Net Position and Governmental Funds Balance Sheet		14
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances		15
Notes to Basic Financial Statements		17
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		36
Notes to Required Supplementary Information		37
TEXAS SUPPLEMENTARY INFORMATION		
Services and Rates	TSI-1	40
General Fund Expenditures	TSI-2	42
Investments	TSI-3	43
Taxes Levied and Receivable	TSI-4	44
Long-Term Debt Service Requirements by Years	TSI-5	45
Change in Long-Term Bonded Debt	TSI-6	54
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	56
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	58
Board Members, Key Personnel and Consultants	TSI-8	60

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Independent Auditors' Report

Board of Directors

Harris - Fort Bend Counties Municipal Utility District No. 3
Harris and Fort Bend Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris - Fort Bend Counties Municipal Utility District No. 3, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic 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 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 principles 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 to provide a basis for our audit opinions.

Board of Directors

Harris - Fort Bend Counties Municipal Utility District No. 3

Harris and Fort Bend Counties, Texas

Opinion

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 Harris - Fort Bend Counties Municipal Utility District No. 3, as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary 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. The information has been subjected to the auditing procedures applied to 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 taken as a whole.

W. G. Gatt & Co., P.C.

Houston, Texas

April 23, 2018

Management's Discussion and Analysis

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***Harris - Fort Bend Counties Municipal Utility District No. 3
Management's Discussion and Analysis
December 31, 2017***

Using this Annual Report

Within this section of the financial report of Harris - Fort Bend Counties Municipal Utility District No. 3 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Harris - Fort Bend Counties Municipal Utility District No. 3
Management's Discussion and Analysis
December 31, 2017***

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at December 31, 2017, was negative \$5,942,406. The District's net position is negative because the District has incurred an obligation to reimburse the developers for the construction of storm sewer systems that are included within public road rights-of-way dedicated to and operated and maintained by Harris County. See Note 6 for additional information regarding the District's obligations to the developers. A comparative summary of the District's overall financial position, as of December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Current assets	\$ 18,080,738	\$ 16,106,979
Capital assets	25,369,003	27,874,966
Total assets	<u>43,449,741</u>	<u>43,981,945</u>
 Total deferred outflows of resources	 <u>1,016,321</u>	 <u>1,079,841</u>
 Current liabilities	 4,906,350	 4,493,170
Long-term liabilities	41,188,963	41,084,882
Total liabilities	<u>46,095,313</u>	<u>45,578,052</u>
 Total deferred inflows of resources	 <u>4,313,155</u>	 <u>3,972,828</u>
 Net position		
Net investment in capital assets	(9,560,792)	(8,356,217)
Restricted	2,278,772	2,112,443
Unrestricted	1,339,614	1,754,680
Total net position	<u>\$ (5,942,406)</u>	<u>\$ (4,489,094)</u>

***Harris - Fort Bend Counties Municipal Utility District No. 3
Management's Discussion and Analysis
December 31, 2017***

The total net position of the District decreased during the current fiscal year by \$1,453,312. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2017</u>	<u>2016</u>
Revenues		
Property taxes, penalties and interest	\$ 3,933,471	\$ 3,774,580
Water and sewer service	1,142,562	960,543
Other	1,131,730	979,963
Total revenues	<u>6,207,763</u>	<u>5,715,086</u>
Expenses		
Current service operations	2,542,588	1,935,703
Interest and fees	1,568,263	1,782,786
Debt issuance costs	466,108	
Depreciation and amortization	445,509	482,845
Total expenses	<u>5,022,468</u>	<u>4,201,334</u>
Change in net position before other items	1,185,295	1,513,752
Other Items		
Transfers to other governments	<u>(2,638,607)</u>	
Change in net position	(1,453,312)	1,513,752
Net position, beginning of year	<u>(4,489,094)</u>	<u>(6,002,846)</u>
Net position, end of year	<u>\$ (5,942,406)</u>	<u>\$ (4,489,094)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of December 31, 2017, were \$10,585,984, which consists of \$7,093,651 in the General Fund, \$2,640,347 in the Debt Service Fund and \$851,986 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Total assets	<u>\$ 11,054,543</u>	<u>\$ 9,824,085</u>
Total liabilities	\$ 2,789,620	\$ 2,889,839
Total deferred inflows	1,171,272	1,084,278
Total fund balance	<u>7,093,651</u>	<u>5,849,968</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 11,054,543</u>	<u>\$ 9,824,085</u>

***Harris - Fort Bend Counties Municipal Utility District No. 3
Management's Discussion and Analysis
December 31, 2017***

The District's assets and liabilities include funds advanced by various landowners for the costs of design and construction of an expansion of the District's wastewater treatment plant and a new water plant.

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	<u>2017</u>	<u>2016</u>
Total revenues	\$ 3,255,556	\$ 3,134,088
Total expenditures	<u>(2,034,029)</u>	<u>(2,942,721)</u>
Revenues over expenditures	1,221,527	191,367
Other changes in fund balance	22,156	525,780
Net change in fund balance	<u>\$ 1,243,683</u>	<u>\$ 717,147</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District, tap connection fees charged to builders in the District and City of Houston sales tax rebates. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While assessed values in the District increased from the prior year, property tax revenues decreased because the District decreased the maintenance component of the levy.
- Water, sewer and Regional Water Authority fee revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with construction activity within the District.
- Sales tax rebates received from the City of Houston under a Strategic Partnership Agreement are dependent on consumer spending at retail stores located within the District's boundaries and will fluctuate from year to year.

Other changes in fund balance during the current and prior year consist of transfers from the Capital Projects Fund.

***Harris - Fort Bend Counties Municipal Utility District No. 3
Management's Discussion and Analysis
December 31, 2017***

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of December 31, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 5,914,031</u>	<u>\$ 5,407,210</u>
Total liabilities	\$ 15,145	\$ 1,265
Total deferred inflows	3,258,539	2,985,269
Total fund balance	2,640,347	2,420,676
Total liabilities, deferred inflows and fund balance	<u>\$ 5,914,031</u>	<u>\$ 5,407,210</u>

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

	2017	2016
Total revenues	\$ 2,923,818	\$ 2,566,168
Total expenditures	(2,704,147)	(2,139,803)
Revenues over expenditures	<u>\$ 219,671</u>	<u>\$ 426,365</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues. The difference between these financial resources and debt service requirements resulted in an increase in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of December 31, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 1,112,164</u>	<u>\$ 875,684</u>
Total liabilities	\$ 260,178	\$ 260,140
Total fund balance	851,986	615,544
Total liabilities and fund balance	<u>\$ 1,112,164</u>	<u>\$ 875,684</u>

***Harris - Fort Bend Counties Municipal Utility District No. 3
Management's Discussion and Analysis
December 31, 2017***

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2017	2016
Total revenues	\$ 8,452	\$ 1,828
Total expenditures	(5,429,854)	(88,501)
Revenues under expenditures	(5,421,402)	(86,673)
Other changes in fund balance	5,657,844	(532,436)
Net change in fund balance	<u>\$ 236,442</u>	<u>\$ (619,109)</u>

The District had considerable capital asset activity in the current year, which was financed with proceeds from the issuance of the Series 2017 Unlimited Tax Bonds. In the prior year, the District transferred \$532,436 from the Capital Projects Fund to the General Fund to finance a portion of the estimated construction costs related to the expansion of the District's wastewater treatment plant.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$92,933 greater budgeted. The *Budgetary Comparison Schedule* on page 36 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

***Harris - Fort Bend Counties Municipal Utility District No. 3
Management's Discussion and Analysis
December 31, 2017***

Capital assets held by the District at December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital assets not being depreciated		
Land and improvements	\$ 9,177,218	\$ 9,517,702
Construction in progress	28,029	
	<u>9,205,247</u>	<u>9,517,702</u>
Capital assets being depreciated/amortized		
Infrastructure	18,460,578	20,404,528
Investment in regional facilities	1,323,445	1,323,445
	<u>19,784,023</u>	<u>21,727,973</u>
Less accumulated depreciation/amortization		
Infrastructure	(3,398,405)	(3,178,257)
Investment in regional facilities	(221,862)	(192,452)
	<u>(3,620,267)</u>	<u>(3,370,709)</u>
Depreciable capital assets, net	<u>16,163,756</u>	<u>18,357,264</u>
Capital assets, net	<u>\$ 25,369,003</u>	<u>\$ 27,874,966</u>

Capital asset additions during the current year include utilities to serve Bella Terra, Phase 3 and improvements at the wastewater treatment plant. Construction in progress is for a generator at the Katy Gap lift station.

Long-Term Debt and Related Liabilities

As of December 31, 2017, the District owes \$1,317,241 to developers for completed projects and operating advances. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds.

At December 31, 2017 and 2016, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2017</u>	<u>2016</u>
2009	\$ 220,000	\$ 425,000
2011	3,970,000	4,095,000
2012	3,685,000	3,770,000
2013	5,800,000	5,965,000
2014	7,115,000	7,280,000
2015 Refunding	6,475,000	6,600,000
2015A	9,475,000	9,850,000
2017	5,680,000	
	<u>\$ 42,420,000</u>	<u>\$ 37,985,000</u>

During the year, the District issued \$5,680,000 in unlimited tax bonds. At December 31, 2017, the District had \$22,915,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring,

***Harris - Fort Bend Counties Municipal Utility District No. 3
 Management's Discussion and Analysis
 December 31, 2017***

constructing and improving the water, sanitary sewer and drainage systems within the District; \$4,925,000 for parks and recreational facilities and \$60,650,000 for refunding purposes.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and water/sewer services and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2017 Actual</u>	<u>2018 Budget</u>
Total revenues	\$ 3,255,556	\$ 3,275,562
Total expenditures	<u>(2,034,029)</u>	<u>(2,222,474)</u>
Revenues over expenditures	1,221,527	1,053,088
Other changes in fund balance	<u>22,156</u>	<u> </u>
Net change in fund balance	1,243,683	1,053,088
Beginning fund balance	<u>5,849,968</u>	<u>7,093,651</u>
Ending fund balance	<u><u>\$ 7,093,651</u></u>	<u><u>\$ 8,146,739</u></u>

Property Taxes

The District's property tax base increased approximately \$95,159,000 for the 2017 tax year from \$430,835,763 to \$525,994,928. This increase was primarily due to new construction in the District. For the 2017 tax year, the District has levied a maintenance tax rate of \$0.21 per \$100 of assessed value and a debt service tax rate of \$0.61 per \$100 of assessed value, for a total combined tax rate of \$0.82 per \$100. Tax rates for the 2016 tax year were \$0.24 per \$100 for maintenance and operations and \$0.68 per \$100 for debt service.

Basic Financial Statements

Harris - Fort Bend Counties Municipal Utility District No. 3
Statement of Net Position and Governmental Funds Balance Sheet
December 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash and investments	\$ 6,453,403	\$ 4,142,862	\$ 1,092,724	\$ 11,688,989	\$ -	\$ 11,688,989
Taxes receivable	790,445	2,305,083		3,095,528		3,095,528
Customer service receivables, net	225,588			225,588		225,588
Internal balances	540,724	(540,724)				
Due from other governments	139,300			139,300		139,300
Prepaid items	22,384			22,384		22,384
Accrued interest receivable	18,279	6,810		25,089		25,089
Restricted cash			19,440	19,440		19,440
Restricted investments	2,812,317			2,812,317		2,812,317
Operating Reserve - Joint Water Plant	52,103			52,103		52,103
Capital assets not being depreciated					9,205,247	9,205,247
Capital assets, net					16,163,756	16,163,756
Total Assets	\$ 11,054,543	\$ 5,914,031	\$ 1,112,164	\$ 18,080,738	25,369,003	43,449,741
Deferred Outflows of Resources						
Deferred difference on refunding					1,016,321	1,016,321
Liabilities						
Accounts payable	\$ 245,086	\$ -	\$ 38	\$ 245,124		245,124
Other payables	473	4,152		4,625		4,625
Customer deposits	302,565			302,565		302,565
Due to other governments	3,000			3,000		3,000
Construction advances	2,238,496			2,238,496		2,238,496
Accrued interest payable		10,993		10,993	411,547	422,540
Due to developers			260,140	260,140	1,057,101	1,317,241
Long-term debt						
Due within one year					1,690,000	1,690,000
Due after one year					39,871,722	39,871,722
Total Liabilities	2,789,620	15,145	260,178	3,064,943	43,030,370	46,095,313
Deferred Inflows of Resources						
Deferred City of Houston sales tax	52,588			52,588	(52,588)	
Deferred property taxes	1,118,684	3,258,539		4,377,223	(64,068)	4,313,155
Fund Balances/Net Position						
Fund Balances						
Nonspendable	74,487			74,487	(74,487)	
Restricted	558,806	2,640,347	851,986	4,051,139	(4,051,139)	
Unassigned	6,460,358			6,460,358	(6,460,358)	
Total Fund Balances	7,093,651	2,640,347	851,986	10,585,984	(10,585,984)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 11,054,543	\$ 5,914,031	\$ 1,112,164	\$ 18,080,738		
Net Position						
Net investment in capital assets					(9,560,792)	(9,560,792)
Restricted for debt service					2,278,772	2,278,772
Unrestricted					1,339,614	1,339,614
Total Net Position					\$ (5,942,406)	\$ (5,942,406)

See notes to basic financial statements.

Harris - Fort Bend Counties Municipal Utility District No. 3
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Water service	\$ 614,898	\$ -	\$ -	\$ 614,898	\$ -	\$ 614,898
Sewer service	527,664			527,664		527,664
Property taxes	1,009,199	2,873,210		3,882,409	(1,689)	3,880,720
Penalties and interest	30,572	21,008		51,580	1,171	52,751
Tap connection and inspection	149,043			149,043		149,043
Regional Water Authority fees	488,076			488,076		488,076
City of Houston sales tax rebates	357,623			357,623	20,455	378,078
Intergovernmental revenue	23,100			23,100		23,100
Investment earnings	55,381	29,600	8,452	93,433		93,433
Total Revenues	3,255,556	2,923,818	8,452	6,187,826	19,937	6,207,763
Expenditures/Expenses						
Current service operations						
Purchased services	20,461			20,461		20,461
Professional fees	254,079		13,662	267,741		267,741
Contracted services	453,317	53,413	731	507,461		507,461
Repairs and maintenance	370,390			370,390		370,390
Temporary lease	15,000			15,000		15,000
Utilities	85,055			85,055		85,055
Regional Water Authority fees	416,694			416,694		416,694
SPA reimbursements (Note 11)	213,204			213,204		213,204
Administrative	66,742	15,209	230	82,181		82,181
Other	29,099			29,099		29,099
Capital outlay	93,940		4,413,821	4,507,761	(4,507,761)	
Debt service						
Principal		1,245,000		1,245,000	(1,245,000)	
Interest and fees	16,048	1,390,525		1,406,573	161,690	1,568,263
Developer interest			535,302	535,302		535,302
Debt issuance costs			466,108	466,108		466,108
Depreciation and amortization					445,509	445,509
Total Expenditures/Expenses	2,034,029	2,704,147	5,429,854	10,168,030	(5,145,562)	5,022,468
Revenues Over/(Under)						
Expenditures/Expenses	1,221,527	219,671	(5,421,402)	(3,980,204)	5,165,499	1,185,295
Other Financing Sources/(Uses)						
Proceeds from sale of bonds			5,680,000	5,680,000	(5,680,000)	
Internal transfers	22,156		(22,156)			
Other Items						
Transfers to other governments					(2,638,607)	(2,638,607)
Net Change in Fund Balances	1,243,683	219,671	236,442	1,699,796	(1,699,796)	
Change in Net Position					(1,453,312)	(1,453,312)
Fund Balance/Net Position						
Beginning of the year	5,849,968	2,420,676	615,544	8,886,188	(13,375,282)	(4,489,094)
End of the year	\$ 7,093,651	\$ 2,640,347	\$ 851,986	\$ 10,585,984	\$ (16,528,390)	\$ (5,942,406)

See notes to basic financial statements.

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Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris - Fort Bend Counties Municipal Utility District No. 3 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Water Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated January 28, 1982, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on March 3, 1982, and the first bonds were sold on January 6, 2009.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The Governmental Accounting Standards Board has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

*Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017*

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes, water and sewer service fees and City of Houston sales tax rebates. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, interest earned on investments, City of Houston sales tax rebates and income from District operations. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

*Harris - Fort Bend Counties Municipal Utility District No. 3
 Notes to Basic Financial Statements
 December 31, 2017*

Note 1 – Summary of Significant Accounting Policies (continued)

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At December 31, 2017, an allowance of \$2,000 was provided for possible uncollectible water/sewer accounts. An allowance for uncollectible property taxes was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated (or amortized in the case of intangible assets) using the straight-line method as follows:

Assets	Useful Life
Infrastructure	7-45 years
Investment in regional facilities	45 years

The District’s storm water detention facilities are considered improvements to land and are non-depreciable.

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable and City of Houston sales tax rebates receivable that are not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources. Additionally, collections of the 2017 property tax levy are not considered current year revenues and, consequently, are also reported as deferred property taxes.

Deferred outflows of financial resources at the government-wide level are from a refunding bond transaction in 2015 in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense. Deferred inflows of financial resources at the government-wide level consist of the 2017 property tax levy, which was levied to finance the 2018 fiscal year.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid items and operating reserves paid to Cimarron Municipal Utility District for the joint water plant.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balances consist of surplus bond proceeds in the General Fund, unspent bond proceeds in the Capital Projects Fund, and property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectibility of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the Harris County and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

***Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017***

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds	\$ 10,585,984
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 28,989,270	
Less accumulated depreciation/amortization	<u>(3,620,267)</u>	
Change due to capital assets		25,369,003

The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.	1,016,321
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds, the difference consists of:

Bonds payable, net	(41,561,722)	
Interest payable on bonds	<u>(411,547)</u>	
Change due to long-term debt		(41,973,269)

Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(1,057,101)
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Receivables that are not collected within sixty days of fiscal year end are not considered available to pay current period expenditures and are deferred in the funds.	52,588
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Deferred inflows in the fund statements consist of the unavailable portion of property taxes receivable and collections of the 2017 levy. In the government wide statements, however, deferred inflows consist of the entire 2017 property tax levy.

Fund level deferred property taxes	4,377,223	
Government wide level deferred property taxes	<u>(4,313,155)</u>	
		64,068

Total net position - governmental activities	<u><u>\$ (5,942,406)</u></u>
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***Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017***

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ 1,699,796

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for:

Property tax revenue	\$ (1,689)	
Penalties and interest	1,171	
City of Houston sales tax revenue	20,455	
		19,937

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	4,507,761	
Depreciation/amortization expense	(445,509)	
		4,062,252

The District conveys certain storm water drainage and road facilities upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (2,638,607)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net position. Other elements of debt financing are reported differently between the fund and government wide statements.

Issuance of long term debt	(5,680,000)	
Principal payments	1,245,000	
Interest expense accrual	(161,690)	
		(4,596,690)

Change in net position of governmental activities \$ (1,453,312)

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Restricted Cash and Investments

Restricted investments of \$2,812,317 in the General Fund as of December 31, 2017, consist of surplus bond proceeds and amounts received from various landowner's in the District for the design and construction of an expansion of the wastewater treatment plant and a new water plant.

At December 31, 2017, the District held in escrow \$19,440 in the Capital Projects Fund from the Series 2009 Bonds as required by the Texas Commission on Environmental Quality, for the purchase of drainage channel site costs.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 3 – Deposits and Investments (continued)

As of December 31, 2017, the District’s investments consist of the following:

Type	Fund	Carrying Value	Percentage of Total	Rating	Weighted Average Maturity
Certificates of deposit	General	\$ 4,800,000			
	Debt Service	1,440,000			
		<u>6,240,000</u>	<u>48%</u>	N/A	N/A
Texas CLASS	General	4,174,600			
	Debt Service	1,452,245			
	Capital Projects	1,092,625			
		<u>6,719,470</u>	<u>52%</u>	AAAm	53 days
Total		<u>\$ 12,959,470</u>	<u>100%</u>		

The District’s investments in certificates of deposit are reported at cost.

Texas CLASS

The District participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administrator and Wells Fargo Bank as the custodian.

The District’s investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District’s investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 3 – Deposits and Investments (continued)

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at December 31, 2017, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	\$ 540,724	Maintenance tax collections not remitted as of year end

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

A summary of internal transfers for the current fiscal year is as follows:

Transfer Out	Transfer In	Amounts	Purpose
Capital Projects Fund	General Fund	\$ 22,156	To reimburse for cost related to the Joint Water Plant generator

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended December 31, 2017, is as follows:

	Beginning Balances	Additions	Adjustments	Ending Balances
Capital assets not being depreciated				
Land and improvements	\$ 9,517,702	\$ -	\$ (340,484)	\$ 9,177,218
Construction in progress		28,029		28,029
	<u>9,517,702</u>	<u>28,029</u>	<u>(340,484)</u>	<u>9,205,247</u>
Capital assets being depreciated/amortized				
Infrastructure	20,404,528	550,124	(2,494,074)	18,460,578
Investment in regional facilities	1,323,445			1,323,445
	<u>21,727,973</u>	<u>550,124</u>	<u>(2,494,074)</u>	<u>19,784,023</u>
Less accumulated depreciation/amortization				
Infrastructure	(3,178,257)	(416,099)	195,951	(3,398,405)
Investment in regional facilities	(192,452)	(29,410)		(221,862)
	<u>(3,370,709)</u>	<u>(445,509)</u>	<u>195,951</u>	<u>(3,620,267)</u>
Subtotal depreciable capital assets, net	<u>18,357,264</u>	<u>104,615</u>	<u>(2,298,123)</u>	<u>16,163,756</u>
Capital assets, net	<u>\$ 27,874,966</u>	<u>\$ 132,644</u>	<u>\$ (2,638,607)</u>	<u>\$ 25,369,003</u>

Depreciation expense for the current year was \$445,509. During the year, it was determined that Harris County had assumed maintenance for certain storm drainage facilities included in the District's capital assets. Accordingly, the net book value of these facilities was reported as transfers to other governments and capital asset values were adjusted.

Note 6 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer and drainage facilities. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The District's developers have also advanced funds to the District for operating expenses.

Changes in amounts due to developers during the year are as follows:

Due to developers, beginning of year	\$ 5,246,849
Developer reimbursements	(4,413,821)
Developer funded construction and adjustments	484,213
Due to developers, end of year	<u>\$ 1,317,241</u>

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 42,420,000
Unamortized discounts	(858,278)
	<u>\$ 41,561,722</u>
Due within one year	<u>\$ 1,690,000</u>

The District's bonds payable at December 31, 2017, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2009	\$ 220,000	\$ 7,000,000	6.0% to 7.6%	April 1, 2010/2018	April 1, October 1	April 1, 2018
2011	3,970,000	4,530,000	3.0% to 4.625%	April 1, 2013/2034	April 1, October 1	April 1, 2019
2012	3,685,000	3,925,000	3.0% to 5.5%	April 1, 2015/2035	April 1, October 1	April 1, 2020
2013	5,800,000	6,270,000	3.0% to 4.75%	April 1, 2015/2036	April 1, October 1	April 1, 2022
2014	7,115,000	7,280,000	2.0% to 4.0%	April 1, 2017/2039	April 1, October 1	April 1, 2022
2015 Refunding	6,475,000	6,765,000	2.25% to 3.75%	April 1, 2016/2033	April 1, October 1	April 1, 2023
2015A	9,475,000	9,850,000	3.0% to 5.5%	April 1, 2017/2039	April 1, October 1	April 1, 2024
2017	5,680,000	5,680,000	2.0% to 3.5%	April 1, 2018/2041	April 1, October 1	April 1, 2024
	<u>\$ 42,420,000</u>					

The 2015 Series Refunding bonds were issued to advance refund all/portions of the District's 2009 Series bonds. Since the 2009 Series bonds were not yet subject to redemption, the District defeased them by placing proceeds of the bonds in an escrow account with an escrow agent and irrevocably pledging the escrow account to the payment of future debt service payments. Accordingly, the defeased bonds are not included in the District's financial statements. The outstanding principal of the defeased bonds is \$5,415,000 at December 31, 2017.

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 7 – Long-Term Debt (continued)

At December 31, 2017, the District had authorized but unissued bonds in the amount of \$22,915,000 for water, sewer and drainage facilities; \$4,925,000 for park and recreational facilities and \$60,650,000 for refunding purposes.

On July 26, 2017, the District issued its \$5,680,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.297067%. Proceeds of the bonds were used to reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds.

The change in the District’s long term debt during the year is as follows:

Bonds payable, beginning of year	\$ 37,985,000
Bonds issued	5,680,000
Bonds retired	<u>(1,245,000)</u>
Bonds payable, end of year	<u><u>\$ 42,420,000</u></u>

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 7 – Long-Term Debt (continued)

As of December 31, 2017, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2018	\$ 1,690,000	\$ 1,522,322	\$ 3,212,322
2019	1,545,000	1,421,970	2,966,970
2020	1,585,000	1,364,214	2,949,214
2021	1,630,000	1,305,082	2,935,082
2022	1,680,000	1,247,901	2,927,901
2023	1,725,000	1,190,757	2,915,757
2024	1,765,000	1,129,745	2,894,745
2025	1,830,000	1,069,057	2,899,057
2026	1,875,000	1,010,181	2,885,181
2027	1,925,000	948,875	2,873,875
2028	1,995,000	883,476	2,878,476
2029	2,060,000	813,204	2,873,204
2030	2,125,000	738,928	2,863,928
2031	2,200,000	660,801	2,860,801
2032	2,270,000	578,497	2,848,497
2033	2,350,000	492,082	2,842,082
2034	2,480,000	400,856	2,880,856
2035	2,530,000	307,188	2,837,188
2036	2,080,000	220,376	2,300,376
2037	1,305,000	157,231	1,462,231
2038	1,335,000	110,369	1,445,369
2039	1,360,000	62,156	1,422,156
2040	540,000	28,350	568,350
2041	540,000	9,450	549,450
	<u>\$ 42,420,000</u>	<u>\$ 17,673,068</u>	<u>\$ 60,093,068</u>

Note 8 – Property Taxes

On May 6, 2000, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Fort Bend Central Appraisal District and the Harris County Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 8 – Property Taxes (continued)

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2017 fiscal year was financed through the 2016 tax levy, pursuant to which the District levied property taxes of \$0.92 per \$100 of assessed value, of which \$0.24 was allocated to maintenance and operations and \$0.68 was allocated to debt service. The resulting tax levy was \$3,963,689 on the adjusted taxable value of \$430,835,763.

Property taxes levied each October are intended to finance the next fiscal year and are, therefore, not considered available for the District’s use during the current fiscal year. Consequently, 2017 levy collections in the amount of \$1,281,695 have been included with deferred property taxes and are recorded as deferred inflows of resources on the *Governmental Funds Balance Sheet*. On the government-wide *Statement of Net Position*, the full 2017 tax levy of \$4,313,155 is reported as deferred inflows. These amounts will be recognized as revenue in 2018.

Property taxes receivable, at December 31, 2017, consisted of the following:

Current year taxes receivable	\$	3,031,460
Prior years taxes receivable		41,870
		3,073,330
Penalty and interest receivable		22,198
Total property taxes receivable	\$	3,095,528

Note 9 – Transfers to Other Governments

Harris County assumes responsibility for the maintenance of storm sewer systems constructed in public streets. Accordingly, these facilities are considered to be capital assets of Harris County, not the District. For the year ended December 31, 2017, the District recorded transfers to other governments in the amount of \$2,638,607 for storm sewer systems constructed by a developer within the District.

Note 10 – West Harris County Regional Water Authority

The District is within the boundaries of the West Harris County Regional Water Authority (the “Authority”), which was created by the Texas Legislature in 2001. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris Galveston Coastal Subsidence District, which regulates groundwater withdrawal.

***Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017***

Note 10 – West Harris County Regional Water Authority (continued)

The Authority charges a groundwater pumpage fee to all permitted well owners within its boundaries and a surface water fee for all surface water provided to water suppliers. As of December 31, 2017, the groundwater pumpage fee was \$2.45 per 1,000 gallons of water pumped. This rate is subject to future increases. The District passes this cost on to its customers. During the current year, the District recognized \$488,076 in revenues and \$416,694 in expenditures for groundwater pumpage fees related to surface water conversion.

Note 11 – Strategic Partnership Agreement with the City of Houston

Effective December 20, 2007, the District and the City of Houston (the “City”) entered into a Strategic Partnership Agreement (the “Agreement”) under which the City annexed tracts within the District developed or to be developed for commercial purposes for the limited purpose of applying the City’s planning, zoning, health and safety ordinances within the District. The Agreement was amended and restated pursuant to that certain First Amended and Restated Strategic Partnership Agreement between the District and the City, effective December 19, 2011, to add certain additional commercial tracts. The District continues to exercise all powers and functions of a municipal utility district. As consideration for the District providing services described in the Agreement, the City agreed to remit one half of all the retail sales tax collected from retailers located in the District’s boundaries. The City agrees that it will not annex all or part of the District during the term of this Agreement, which is thirty years.

Receivables in the amount of \$52,588 have been included in Due from City of Houston and are recorded as deferred inflows of resources on the Governmental Funds Balance Sheet. This amount does not meet the availability criteria required for revenue recognition at the fund level and will be recognized as revenue in 2018. During the fiscal year ended December 31, 2017, the District recorded \$378,078 in revenues in accordance with the Agreement.

Note 12 – Development Agreement

On February 23, 2009, the District entered into a Development Agreement (the “Agreement”) with Ashford Park Limited Partnership, Bluecap, Ltd., and Capricorn, Ltd., being collectively referred to as Katy ABC Properties (the “Developer”) for the reimbursement of certain other infrastructure improvements in the District. The District and the Developer entered into that certain Addendum to Development Agreement effective November 25, 2013.

Under the terms of the Agreement, seventy five percent (75%) of revenues received pursuant to the District’s Strategic Partnership Agreement (the “SPA”) with the City of Houston will be paid to the Developer in order to reimburse the Developer for the costs associated with certain improvements made. The revenue is generated from businesses located within a defined area that is being improved by the Developer. The District agrees to make payments to the Developer no less frequently than once each calendar quarter beginning in the calendar quarter next following the calendar quarter in which the District first collects sales tax revenue pursuant to the SPA with the City of Houston, as well as pay compounded interest of 7% annually.

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Basic Financial Statements
December 31, 2017

Note 12 – Development Agreement (continued)

Project principal costs to be reimbursed by the District are \$2,844,947. As of December 31, 2017, the District has reimbursed \$597,887 to the Developer, which includes \$213,204 reimbursed during the current year. At December 31, 2017, the remaining principal balance for the improvements is \$2,247,087. During the current year the District paid \$16,048 in interest associated with this agreement. Payments from the District to the Developer will continue until: a) the sum of the payments made by the District to the Developer equals the total eligible cost of the projects as determined under the Agreement, or b) the expiration of 15 years from the effective date of January 1, 2012, whichever comes first. In the event that SPA receipts are insufficient to provide full reimbursement to the Developer by such date, the District is not obligated to use any other funds for such purposes. Since reimbursement is contingent upon the receipt of certain future revenues, the District has not recorded a liability related to this Agreement.

Note 13 – Joint Water Plant Operating Agreement

On November 17, 2010, the District entered into a Joint Water Plant Operating Agreement (the “Agreement”) with Cimarron Municipal Utility District (“Cimarron”). This Agreement establishes the terms and conditions under which maintenance and operations costs for the joint water plant will be allocated between the districts. Cimarron shall hold legal title to the water plant for the benefit of both districts. Each district shall have an undivided equitable interest in the water plant based on the districts’ proportionate share of equivalent single family connections (“ESFCs”). The District has a 34.96% interest with 633 ESFCs and Cimarron has a 65.04% interest with 1175 ESFCs.

Each district shall be billed monthly for its proportionate share of maintenance and operating expenditures. For the year ended December 31, 2017, the District recorded \$20,461 in purchased services related to the Agreement. The District has paid \$52,103 to meet the operating reserve requirement of the joint water plant.

Note 14 – 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 personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

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Required Supplementary Information

Harris - Fort Bend Counties Municipal Utility District No. 3
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 534,700	\$ 614,898	\$ 80,198
Sewer service	441,000	527,664	86,664
Property taxes	1,199,700	1,009,199	(190,501)
Penalties and interest	21,500	30,572	9,072
Tap connection and inspection	123,540	149,043	25,503
Regional Water Authority fees	347,900	488,076	140,176
City of Houston sales tax rebates	255,200	357,623	102,423
Intergovernmental revenue	25,200	23,100	(2,100)
Investment earnings	24,030	55,381	31,351
Total Revenues	<u>2,972,770</u>	<u>3,255,556</u>	<u>282,786</u>
Expenditures			
Current service operations			
Purchased services	50,000	20,461	29,539
Professional fees	288,500	254,079	34,421
Contracted services	441,000	453,317	(12,317)
Repairs and maintenance	290,520	370,390	(79,870)
Temporary lease	15,000	15,000	
Utilities	103,500	85,055	18,445
Regional Water Authority fees	351,100	416,694	(65,594)
SPA reimbursements	168,800	213,204	(44,404)
Administrative	75,000	66,742	8,258
Other	25,800	29,099	(3,299)
Capital outlay		93,940	(93,940)
Interest and fees	12,800	16,048	(3,248)
Total Expenditures	<u>1,822,020</u>	<u>2,034,029</u>	<u>(212,009)</u>
Revenues Over Expenditures	1,150,750	1,221,527	70,777
Other Financing Sources			
Internal transfers		22,156	22,156
Net Change in Fund Balance	1,150,750	1,243,683	92,933
Fund Balance			
Beginning of the year	5,849,968	5,849,968	
End of the year	<u>\$ 7,000,718</u>	<u>\$ 7,093,651</u>	<u>\$ 92,933</u>

Harris - Fort Bend Counties Municipal Utility District No. 3
Notes to Required Supplementary Information
December 31, 2017

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-1. Services and Rates
December 31, 2017

1. Services provided by the District During the Fiscal Year:

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

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 18.00	5,000	N	\$ 2.00	5,001 to no limit
*Wastewater:	\$ 34.43	-0-	Y		
Surface water conversion fee:	\$ -	-0-	N	\$ 2.36	-0- to no limit

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 51.60 Wastewater \$ 34.43

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	600	591	x 1.0	591
1"	6	6	x 2.5	15
1.5"	6	6	x 5.0	30
2"	62	62	x 8.0	496
3"	4	4	x 15.0	60
4"			x 25.0	
6"	3	3	x 50.0	150
8"	15	15	x 80.0	1,200
10"			x 115.0	
Total Water	696	687		2,542
Total Wastewater	643	634	x 1.0	634

* \$20.00 flat monthly rate for sanitary sewer service to each residential customer within the Grand Enclave subdivision because they do not receive solid waste collection and disposal services from the District.

See accompanying auditor's report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-1. Services and Rates
December 31, 2017

3. Total Water Consumption during the fiscal year (presented to the nearest thousand):
 (You may omit this information if your district does not provide water)

* Gallons purchased into system:	<u>21,907,000</u>	
Gallons pumped into system:	<u>171,695,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>180,227,000</u>	(Gallons billed / Gallons pumped)
		<u>93.09%</u>

4. Standby Fees (authorized only under TWC Section 49.231):
 (You may omit this information if your district does not levy standby fees)

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: _____

5. Location of District (required for first audit year or when information changes,
 otherwise this information may be omitted):

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Harris and Fort Bend Counties

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: _____

Is the District located within a city's extra territorial jurisdiction (ETJ)?
 Entirely Partly Not at all

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

* Water purchased from Cimarron MUD

See accompanying auditors' report.

***Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-2 General Fund Expenditures
For the Year Ended December 31, 2017***

Purchased services	<u>\$ 20,461</u>
Professional fees	
Legal	154,205
Audit	11,000
Engineering	88,874
	<u>254,079</u>
Contracted services	
Bookkeeping	26,194
Operator	77,017
Garbage collection	89,099
Tap connection and inspection	89,362
Security	134,305
Sludge removal	32,340
Sales tax consultant	5,000
	<u>453,317</u>
Repairs and maintenance	<u>370,390</u>
Temporary lease	<u>15,000</u>
Utilities	<u>85,055</u>
Regional Water Authority fees	<u>416,694</u>
SPA reimbursements	<u>213,204</u>
Administrative	
Directors fees	21,888
Printing and office supplies	8,675
Insurance	20,894
Other	15,285
	<u>66,742</u>
Other	<u>29,099</u>
Capital outlay	<u>93,940</u>
Interest and fees	<u>16,048</u>
Total expenditures	<u>\$ 2,034,029</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-3. Investments
December 31, 2017

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Interest Receivable
General					
Texas CLASS	TX-01-0375-0001	Variable	N/A	\$ 1,460,703	\$ -
Texas CLASS	TX-01-0375-0004	Variable	N/A	2,155,091	
Texas CLASS	TX-01-0375-0005	Variable	N/A	558,806	
Certificate of deposit	6743570926	1.30%	12/19/2018	240,000	103
Certificate of deposit	6742991103	1.30%	12/6/2018	240,000	214
Certificate of deposit	100135231	1.10%	8/27/2018	240,000	911
Certificate of deposit	3300041538	1.10%	7/13/2018	240,000	1,230
Certificate of deposit	1111015333	0.75%	6/29/2018	240,000	912
Certificate of deposit	449637	0.90%	3/22/2018	240,000	1,681
Certificate of deposit	310847	1.00%	11/4/2018	240,000	375
Certificate of deposit	4188690	1.20%	10/27/2018	240,000	513
Certificate of deposit	5011051	0.75%	2/17/2018	240,000	1,563
Certificate of deposit	460018385	0.80%	3/16/2018	240,000	1,525
Certificate of deposit	12592	1.10%	10/6/2018	240,000	622
Certificate of deposit	62096	1.00%	5/12/2018	240,000	1,532
Certificate of deposit	6000018546	0.50%	4/17/2018	240,000	848
Certificate of deposit	7772	1.05%	12/8/2018	240,000	159
Certificate of deposit	11915	1.00%	9/21/2018	240,000	664
Certificate of deposit	371	0.90%	1/12/2018	240,000	2,102
Certificate of deposit	1002100450	0.75%	6/1/2018	240,000	1,050
Certificate of deposit	66000388	0.40%	1/15/2018	240,000	960
Certificate of deposit	3116002022	0.40%	1/15/2018	240,000	989
Certificate of deposit	83179184	1.21%	11/21/2018	240,000	326
				<u>8,974,600</u>	<u>18,279</u>
Debt Service					
Texas CLASS	TX-01-0375-0002	Variable	N/A	1,452,245	
Certificate of deposit	9009004060	0.70%	3/20/2018	240,000	1,316
Certificate of deposit	4188528	0.40%	3/20/2018	240,000	752
Certificate of deposit	5011002	0.75%	3/19/2018	240,000	1,425
Certificate of deposit	14435	0.51%	3/22/2018	240,000	952
Certificate of deposit	6000022886	0.50%	3/16/2018	240,000	953
Certificate of deposit	1003001095	0.75%	3/20/2018	240,000	1,410
				<u>2,892,245</u>	<u>6,810</u>
Capital projects					
Texas CLASS	TX-01-0375-0003	Variable	N/A	412,350	
Texas CLASS	TX-01-0375-0006	Variable	N/A	49,798	
Texas CLASS	TX-01-0375-0007	Variable	N/A	400,149	
Texas CLASS	TX-01-0375-0008	Variable	N/A	230,328	
				<u>1,092,625</u>	
Total - All Funds				<u>\$ 12,959,470</u>	<u>\$ 25,089</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-4. Taxes Levied and Receivable
December 31, 2017

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 878,306	\$ 2,471,698	\$ 3,350,004	
Adjustments	(28,649)	(63,256)	(91,905)	
Adjusted Receivable	849,657	2,408,442	3,258,099	
2017 Original Tax Levy	1,055,120	3,064,874	4,119,994	
Adjustments	49,468	143,693	193,161	
Adjusted Tax Levy	1,104,588	3,208,567	4,313,155	
Total to be accounted for	1,954,245	5,617,009	7,571,254	
Tax collections:				
Current year	328,239	953,456	1,281,695	
Prior years	835,561	2,380,668	3,216,229	
Total Collections	1,163,800	3,334,124	4,497,924	
Taxes Receivable, End of Year	\$ 790,445	\$ 2,282,885	\$ 3,073,330	
Taxes Receivable, By Years				
2017	\$ 776,349	\$ 2,255,111	\$ 3,031,460	
2016	3,180	9,009	12,189	
2015	2,344	4,990	7,334	
2014 and prior	8,572	13,775	22,347	
Taxes Receivable, End of Year	\$ 790,445	\$ 2,282,885	\$ 3,073,330	
	2017	2016	2015	2014
Property Valuations				
Land	\$ 142,621,786	\$ 123,199,950	\$ 116,313,271	\$ 73,427,917
Improvements	390,398,845	305,097,350	234,540,055	162,234,106
Personal Property	9,679,212	9,987,936	3,783,017	2,505,943
Exemptions	(16,704,915)	(7,449,473)	(6,373,463)	(5,637,193)
Total Property Valuations	\$ 525,994,928	\$ 430,835,763	\$ 348,262,880	\$ 232,530,773
Tax Rates per \$100 Valuation				
Maintenance tax rates	\$ 0.21	\$ 0.24	\$ 0.31	\$ 0.20
Debt service tax rates	0.61	0.68	0.66	0.87
	\$ 0.82	\$ 0.92	\$ 0.97	\$ 1.07
Adjusted Tax Levy	\$ 4,313,155	\$ 3,963,689	\$ 3,378,150	\$ 2,488,079
Percentage of Taxes Collected to Taxes Levied **	29.72%	99.69%	99.78%	99.78%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 6, 2000

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

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2009--by Years
December 31, 2017

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
<u>2018</u>	<u>\$ 220,000</u>	<u>\$ 7,040</u>	<u>\$ 227,040</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2011--by Years
December 31, 2017

<u>Due During Fiscal Years Ending</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2018	\$ 135,000	\$ 161,862	\$ 296,862
2019	145,000	157,663	302,663
2020	155,000	152,969	307,969
2021	160,000	147,850	307,850
2022	175,000	142,187	317,187
2023	185,000	135,888	320,888
2024	195,000	128,750	323,750
2025	210,000	120,650	330,650
2026	225,000	111,950	336,950
2027	235,000	102,750	337,750
2028	250,000	92,425	342,425
2029	270,000	80,725	350,725
2030	285,000	68,237	353,237
2031	305,000	54,963	359,963
2032	325,000	40,584	365,584
2033	345,000	25,091	370,091
2034	370,000	8,556	378,556
	<u>\$ 3,970,000</u>	<u>\$ 1,733,100</u>	<u>\$ 5,703,100</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2012--by Years
December 31, 2017

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2018	\$ 85,000	\$ 127,950	\$ 212,950
2019	90,000	123,138	213,138
2020	95,000	118,050	213,050
2021	105,000	113,863	218,863
2022	110,000	110,638	220,638
2023	115,000	107,263	222,263
2024	120,000	103,738	223,738
2025	130,000	99,988	229,988
2026	135,000	96,013	231,013
2027	145,000	91,813	236,813
2028	155,000	87,119	242,119
2029	160,000	82,000	242,000
2030	170,000	76,638	246,638
2031	180,000	70,950	250,950
2032	190,000	64,700	254,700
2033	200,000	57,875	257,875
2034	750,000	40,781	790,781
2035	750,000	13,588	763,588
	\$ 3,685,000	\$ 1,586,105	\$ 5,271,105

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2013--by Years
December 31, 2017

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2018	\$ 170,000	\$ 243,256	\$ 413,256
2019	180,000	236,256	416,256
2020	190,000	228,856	418,856
2021	200,000	221,056	421,056
2022	210,000	213,906	423,906
2023	220,000	207,181	427,181
2024	230,000	199,581	429,581
2025	245,000	190,656	435,656
2026	255,000	180,656	435,656
2027	265,000	170,256	435,256
2028	280,000	159,356	439,356
2029	295,000	147,488	442,488
2030	310,000	134,632	444,632
2031	325,000	120,732	445,732
2032	340,000	105,769	445,769
2033	360,000	89,794	449,794
2034	375,000	72,797	447,797
2035	550,000	51,063	601,063
2036	800,000	19,000	819,000
	<u>\$ 5,800,000</u>	<u>\$ 2,992,291</u>	<u>\$ 8,792,291</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2014--by Years
December 31, 2017

<u>Due During Fiscal Years Ending</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2018	\$ 175,000	\$ 235,338	\$ 410,338
2019	185,000	231,737	416,737
2020	195,000	226,963	421,963
2021	205,000	220,962	425,962
2022	215,000	214,663	429,663
2023	230,000	207,987	437,987
2024	240,000	200,938	440,938
2025	255,000	193,513	448,513
2026	265,000	185,712	450,712
2027	280,000	177,537	457,537
2028	295,000	168,913	463,913
2029	315,000	159,566	474,566
2030	330,000	149,281	479,281
2031	350,000	138,231	488,231
2032	370,000	126,300	496,300
2033	390,000	113,475	503,475
2034	410,000	99,719	509,719
2035	430,000	85,018	515,018
2036	455,000	69,247	524,247
2037	480,000	51,400	531,400
2038	510,000	31,600	541,600
2039	535,000	10,700	545,700
	<u>\$ 7,115,000</u>	<u>\$ 3,298,800</u>	<u>\$ 10,413,800</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2015 Refunding--by Years
December 31, 2017

<u>Due During Fiscal Years Ending</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2018	\$ 130,000	\$ 206,282	\$ 336,282
2019	370,000	198,782	568,782
2020	375,000	187,607	562,607
2021	385,000	176,207	561,207
2022	395,000	165,988	560,988
2023	400,000	156,544	556,544
2024	405,000	145,469	550,469
2025	415,000	133,169	548,169
2026	420,000	120,644	540,644
2027	425,000	107,438	532,438
2028	440,000	92,832	532,832
2029	445,000	77,344	522,344
2030	455,000	61,309	516,309
2031	465,000	44,344	509,344
2032	470,000	26,813	496,813
2033	480,000	9,000	489,000
	<u>\$ 6,475,000</u>	<u>\$ 1,909,772</u>	<u>\$ 8,384,772</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2015A--by Years
December 31, 2017

<u>Due During Fiscal Years Ending</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2018	\$ 375,000	\$ 346,719	\$ 721,719
2019	375,000	326,094	701,094
2020	375,000	305,469	680,469
2021	375,000	284,844	659,844
2022	375,000	264,219	639,219
2023	375,000	243,594	618,594
2024	375,000	222,969	597,969
2025	375,000	207,031	582,031
2026	375,000	195,781	570,781
2027	375,000	184,531	559,531
2028	375,000	173,281	548,281
2029	375,000	162,031	537,031
2030	375,000	150,781	525,781
2031	375,000	139,531	514,531
2032	375,000	128,281	503,281
2033	375,000	116,797	491,797
2034	375,000	105,078	480,078
2035	600,000	89,844	689,844
2036	625,000	70,704	695,704
2037	625,000	50,781	675,781
2038	625,000	30,469	655,469
2039	625,000	10,156	635,156
	<u>\$ 9,475,000</u>	<u>\$ 3,808,985</u>	<u>\$ 13,283,985</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
December 31, 2017

<u>Due During Fiscal Years Ending</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2018	\$ 400,000	\$ 193,875	\$ 593,875
2019	200,000	148,300	348,300
2020	200,000	144,300	344,300
2021	200,000	140,300	340,300
2022	200,000	136,300	336,300
2023	200,000	132,300	332,300
2024	200,000	128,300	328,300
2025	200,000	124,050	324,050
2026	200,000	119,425	319,425
2027	200,000	114,550	314,550
2028	200,000	109,550	309,550
2029	200,000	104,050	304,050
2030	200,000	98,050	298,050
2031	200,000	92,050	292,050
2032	200,000	86,050	286,050
2033	200,000	80,050	280,050
2034	200,000	73,925	273,925
2035	200,000	67,675	267,675
2036	200,000	61,425	261,425
2037	200,000	55,050	255,050
2038	200,000	48,300	248,300
2039	200,000	41,300	241,300
2040	540,000	28,350	568,350
2041	540,000	9,450	549,450
	<u>\$ 5,680,000</u>	<u>\$ 2,336,975</u>	<u>\$ 8,016,975</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
December 31, 2017

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2018	\$ 1,690,000	\$ 1,522,322	\$ 3,212,322
2019	1,545,000	1,421,970	2,966,970
2020	1,585,000	1,364,214	2,949,214
2021	1,630,000	1,305,082	2,935,082
2022	1,680,000	1,247,901	2,927,901
2023	1,725,000	1,190,757	2,915,757
2024	1,765,000	1,129,745	2,894,745
2025	1,830,000	1,069,057	2,899,057
2026	1,875,000	1,010,181	2,885,181
2027	1,925,000	948,875	2,873,875
2028	1,995,000	883,476	2,878,476
2029	2,060,000	813,204	2,873,204
2030	2,125,000	738,928	2,863,928
2031	2,200,000	660,801	2,860,801
2032	2,270,000	578,497	2,848,497
2033	2,350,000	492,082	2,842,082
2034	2,480,000	400,856	2,880,856
2035	2,530,000	307,188	2,837,188
2036	2,080,000	220,376	2,300,376
2037	1,305,000	157,231	1,462,231
2038	1,335,000	110,369	1,445,369
2039	1,360,000	62,156	1,422,156
2040	540,000	28,350	568,350
2041	540,000	9,450	549,450
	<u>\$ 42,420,000</u>	<u>\$ 17,673,068</u>	<u>\$ 60,093,068</u>

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-6. Change in Long-Term Bonded Debt
December 31, 2017

	Bond Issue			
	Series 2009	Series 2011	Series 2012	Series 2013
Interest rate	6.0% - 7.6%	3.0% - 4.625%	3.0% - 5.5%	3.0% - 4.75%
Dates interest payable	4/1; 10/1	4/1; 10/1	4/1; 10/1	4/1; 10/1
Maturity dates	4/1/10 - 4/1/18	4/1/13 - 4/1/34	4/1/15 - 4/1/35	4/1/15 - 4/1/36
Beginning bonds outstanding	\$ 425,000	\$ 4,095,000	\$ 3,770,000	\$ 5,965,000
Bonds issued				
Bonds retired	(205,000)	(125,000)	(85,000)	(165,000)
Ending bonds outstanding	<u>\$ 220,000</u>	<u>\$ 3,970,000</u>	<u>\$ 3,685,000</u>	<u>\$ 5,800,000</u>
Interest paid during fiscal year	<u>\$ 20,384</u>	<u>\$ 165,763</u>	<u>\$ 132,625</u>	<u>\$ 249,956</u>
Paying agent's name and city	<u>Regions Bank, Houston, Texas</u>			
	Water, Sewer and	Parks and		
	Drainage Bonds	Recreational	Refunding Bonds	
Bond Authority:		Facilities Bonds		
Amount Authorized by Voters	\$ 67,450,000	\$ 4,925,000	\$ 62,000,000	
Amount Issued	(44,535,000)		(1,350,000)	
Remaining To Be Issued	<u>\$ 22,915,000</u>	<u>\$ 4,925,000</u>	<u>\$ 60,650,000</u>	

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investments balances as of December 31, 2017:	<u>\$ 4,142,862</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 2,503,878</u>

See accompanying auditors' report.

Bond Issue

Series 2014	Series 2015 Refunding	Series 2015A	Series 2017	Totals
2.0% - 4.0% 4/1; 10/1 4/1/17 - 4/1/39	2.25% - 3.75% 4/1; 10/1 4/1/16 - 4/1/33	3.0% - 5.5% 4/1; 10/1 4/1/17 - 4/1/39	2.0% - 3.5% 4/1; 10/1 4/1/18 - 4/1/41	
\$ 7,280,000	\$ 6,600,000	\$ 9,850,000	\$ -	\$ 37,985,000
			5,680,000	5,680,000
(165,000)	(125,000)	(375,000)		(1,245,000)
<u>\$ 7,115,000</u>	<u>\$ 6,475,000</u>	<u>\$ 9,475,000</u>	<u>\$ 5,680,000</u>	<u>\$ 42,420,000</u>
<u>\$ 238,738</u>	<u>\$ 210,106</u>	<u>\$ 367,344</u>	<u>\$ -</u>	<u>\$ 1,384,916</u>

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Water service	\$ 614,898	\$ 521,649	\$ 588,123	\$ 433,122	\$ 336,491
Sewer service	527,664	438,894	517,497	425,830	318,336
Property taxes	1,009,199	1,179,622	463,511	511,443	417,736
Penalties and interest	30,572	30,390	24,839	16,076	20,348
Tap connection and inspection	149,043	332,585	408,070	897,149	305,128
Regional Water Authority fees	488,076	346,161	275,433	209,344	166,208
City of Houston sales tax rebates	357,623	241,973	181,502	129,668	61,626
Intergovernmental revenue	23,100	18,900	11,500	13,000	
Miscellaneous			34	12,185	115
Investment earnings	55,381	23,914	17,732	12,955	12,019
Total Revenues	3,255,556	3,134,088	2,488,241	2,660,772	1,638,007
Expenditures					
Current service operations					
Purchased services	20,461	48,013	35,454	29,352	36,663
Professional fees	254,079	312,435	287,774	240,166	295,414
Contracted services	453,317	497,152	437,387	691,037	302,577
Repairs and maintenance	370,390	300,876	286,949	276,920	144,525
Temporary lease	15,000	15,000	15,000	17,500	82,000
Utilities	85,055	86,280	86,467	80,810	74,806
Regional Water Authority fees	416,694	317,196	261,197	195,349	173,040
SPA reimbursements	213,204	154,115	115,269	69,053	46,219
Administrative	66,742	64,740	63,419	58,833	47,053
Other	29,099	30,850	18,634	16,272	28,183
Capital outlay	93,940	867,862		69,910	12,193
Interest and fees	16,048	248,202	8,676	8,091	
Total Expenditures	2,034,029	2,942,721	1,616,226	1,753,293	1,242,673
Revenues Over Expenditures	\$ 1,221,527	\$ 191,367	\$ 872,015	\$ 907,479	\$ 395,334

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
19%	17%	24%	17%	21%
16%	14%	21%	16%	19%
30%	36%	19%	19%	25%
1%	1%	1%	1%	1%
5%	11%	16%	34%	19%
15%	11%	11%	8%	10%
11%	8%	7%	5%	4%
1%	1%	*	*	*
		*	*	*
2%	1%	1%	*	1%
100%	100%	100%	100%	100%

1%	2%	1%	1%	2%
8%	10%	12%	9%	18%
14%	16%	18%	26%	18%
11%	10%	12%	10%	9%
*	*	1%	1%	5%
3%	3%	3%	3%	5%
13%	10%	10%	7%	11%
7%	5%	5%	3%	3%
2%	2%	3%	2%	3%
1%	1%	1%	1%	2%
3%	28%		3%	1%
*	8%	*	*	
63%	95%	66%	66%	77%
37%	5%	34%	34%	23%

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 2,873,210	\$ 2,512,442	\$ 2,015,446	\$ 1,588,095	\$ 1,294,011
Penalties and interest	21,008	43,162	18,688	9,378	19,092
Miscellaneous			1,278	12,333	314
Investment earnings	29,600	10,564	7,428	6,476	3,918
Accrued interest on bonds sold					16,222
Total Revenues	2,923,818	2,566,168	2,042,840	1,616,282	1,333,557
Expenditures					
Tax collection services	68,622	68,582	50,270	46,089	39,667
Debt service					
Principal	1,245,000	715,000	520,000	280,000	265,000
Interest and fees	1,390,525	1,356,221	1,075,224	1,000,106	787,904
Debt issuance costs			198,256		
Total Expenditures	2,704,147	2,139,803	1,843,750	1,326,195	1,092,571
Revenues Over Expenditures	\$ 219,671	\$ 426,365	\$ 199,090	\$ 290,087	\$ 240,986
Total Active Retail Water Connections	687	675	660	627	547
Total Active Retail Wastewater Connections	634	618	605	602	506

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
98%	98%	99%	98%	98%
1%	2%	1%	1%	1%
		*	1%	*
1%	*	*	*	*
				1%
100%	100%	100%	100%	100%
2%	3%	2%	3%	3%
43%	28%	25%	17%	20%
48%	53%	53%	62%	59%
		10%		
93%	84%	90%	82%	82%
7%	16%	10%	18%	18%

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended December 31, 2017

Complete District Mailing Address: 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056
District Business Telephone Number: (713) 623-4531
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): May 17, 2017
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Ron Welch	5/14 to 5/18	\$ 2,850	\$ 2,326	President
Cyndal Porter	5/14 to 5/18	1,800		Vice President
Derrell Witt	5/16 to 5/20	3,450	2,156	Secretary
James Barbarino	5/17 to 5/18	2,100	1,125	Assistant Secretary
Frank Anzalotti	6/16 to 6/20	3,000	1,910	Assistant Secretary
Robert L. White	2/15 to 4/17	150		Former Director
Consultants				
		Amounts Paid		
Schwartz, Page & Harding, L.L.P.	1982	\$ 322,223		Attorney
Environmental Development Partners, LLC	2005	438,108		Operator
Municipal Accounts & Consulting, L.P.	1995	29,973		Bookkeeper
Wheeler & Associates, Inc.	2001	22,378		Tax Collector
Fort Bend Central Appraisal District	Legislation	470		Property Valuation
Harris County Appraisal District	Legislation	31,150		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	2004	4,415		Delinquent Tax Attorney
Van De Wiele & Vogler, Inc.	1982	114,506		Engineer
McGrath & Co., PLLC	Annual	19,500		Auditor
FirstSouthwest, a Division of Hilltop Securities, Inc.	2002	120,565		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditors' report.

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }
 }
COUNTIES OF HARRIS }
 }
AND FORT BEND }
 }

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY
DISTRICT NO. 3, OF HARRIS AND FORT BEND
COUNTIES, TEXAS

I, Ron Welch, President of the Board of Directors of Harris-Fort Bend Counties Municipal Utility District No. 3, of Harris and Fort Bend Counties, Texas, hereby swear, or affirm, that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 23rd day of April, 2018, its annual audit report for the fiscal year or period ended December 31, 2017, and that copies of the annual audit report have been filed in the District office, located at 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056.

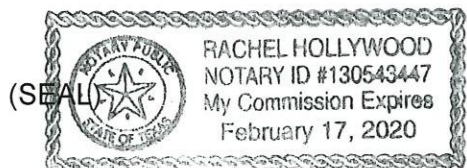
The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code, Section 49.194.

HARRIS-FORT BEND COUNTIES MUNICIPAL
UTILITY DISTRICT NO. 3, OF HARRIS AND
FORT BEND COUNTIES, TEXAS

Date: April 23, 2018

By: 
Ron Welch, President, Board of
Directors

Sworn to and subscribed to before me this 23rd day of April, 2018.




Notary Public