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# **Harris County Municipal Utility District No. 278 Harris County, Texas**

**Independent Auditor's Report and  
Financial Statements**

**August 31, 2023**

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**Harris County Municipal Utility District No. 278**  
**August 31, 2023**

**Contents**

<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Management's Discussion and Analysis.....</b>	<b>4</b>
<b>Basic Financial Statements</b>	
Statement of Net Position and Governmental Funds Balance Sheet .....	10
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.....	12
Notes to Financial Statements.....	13
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund.....	27
Budgetary Comparison Schedule –Special Revenue Fund.....	28
Notes to Required Supplementary Information .....	29
<b>Supplementary Information</b>	
Other Schedules Included Within This Report .....	30
Schedule of Services and Rates .....	31
Schedule of General Fund Expenditures.....	32
Schedule of Temporary Investments.....	33
Analysis of Taxes Levied and Receivable .....	34
Schedule of Long-term Debt Service Requirements by Years .....	36
Changes in Long-term Bonded Debt .....	44
Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund – Five Years.....	45
Board Members, Key Personnel and Consultants.....	47



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## Independent Auditor's Report

Board of Directors  
Harris County Municipal Utility District No. 278  
Harris County, Texas

### ***Opinions***

We have audited the financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 278 (the District), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of August 31, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance

and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

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

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**FORVIS, LLP**

Houston, Texas  
January 12, 2024

# Harris County Municipal Utility District No. 278

## Management's Discussion and Analysis

### August 31, 2023

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

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

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

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

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

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

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

**Harris County Municipal Utility District No. 278**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2023**

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

**Fund Financial Statements**

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

**Governmental Funds**

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

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

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

**Notes to Financial Statements**

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

**Harris County Municipal Utility District No. 278**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2023**

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

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

**Summary of Net Position**

	<b>2023</b>	<b>2022</b>
Current and other assets	\$ 26,996,404	\$ 23,717,176
Capital assets	33,692,799	34,486,090
Total assets	60,689,203	58,203,266
Deferred outflows of resources	1,126,153	1,192,808
Total assets and deferred outflows of resources	\$ 61,815,356	\$ 59,396,074
Long-term liabilities	\$ 51,787,673	\$ 53,307,086
Other liabilities	1,936,263	1,683,881
Total liabilities	53,723,936	54,990,967
Net position:		
Net investment in capital assets	111,551	(510,029)
Restricted	4,032,337	3,741,332
Unrestricted	3,947,532	1,173,804
Total net position	\$ 8,091,420	\$ 4,405,107

The total net position of the District increased by \$3,686,313, or about 84 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is included in long-term liabilities in the government-wide financial statements, as well as maintenance tax revenues and charges for services exceeding service operating expenses. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



**Harris County Municipal Utility District No. 278**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2023**

**Summary of Changes in Net Position**

	<b>2023</b>	<b>2022</b>
Revenues:		
Property taxes	\$ 5,893,271	\$ 5,331,581
Charges for services	3,486,045	3,286,239
Other revenues	1,684,637	691,158
Total revenues	<u>11,063,953</u>	<u>9,308,978</u>
Expenses:		
Services	4,498,535	3,908,801
Conveyance of capital assets	-	488,463
Depreciation	914,575	912,014
Debt service	1,964,530	2,340,968
Total expenses	<u>7,377,640</u>	<u>7,650,246</u>
Change in net position	3,686,313	1,658,732
Net position, beginning of year	<u>4,405,107</u>	<u>2,746,375</u>
Net position, end of year	<u>\$ 8,091,420</u>	<u>\$ 4,405,107</u>

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

The District's combined fund balances as of the end of the fiscal year ended August 31, 2023, were \$24,950,354, an increase of \$3,034,358 from the prior year.

The general fund's fund balance increased by \$2,772,315, primarily due to property tax and service revenues exceeding service operations and capital outlay expenditures.

The special revenue fund's fund balance remained the same, as all expenditures were billed to participants.

The debt service fund's fund balance increased by \$8,398, primarily due to property tax and penalty and interest revenues and investment income being greater than bond principal and interest requirements and contracted services expenditures.

The capital projects fund's fund balance increased by \$253,645 due to investment income exceeding capital outlay expenditures.

**Harris County Municipal Utility District No. 278**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2023**

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to investment income, purchased services expenditures, contracted services expenditures and other expenditures being greater than anticipated and repairs and maintenance expenditures and capital outlay expenditures being less than anticipated. The fund balance as of August 31, 2023, was expected to be \$14,400,662 and the actual end-of-year fund balance was \$14,921,693.

**Capital Assets and Related Debt**

**Capital Assets**

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

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

	<b>2023</b>	<b>2022</b>
Land and improvements	\$ 11,905,612	\$ 11,905,612
Construction in progress	497,197	427,156
Water facilities	8,373,550	8,653,094
Wastewater facilities	12,916,440	13,500,228
Total capital assets	\$ 33,692,799	\$ 34,486,090

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

Construction in progress, engineering fees related to the wastewater treatment plant No. 3 expansion, Phase 1, and Will Clayton sanitary extension to serve Village Trace Drive and Hunters Terrace Drive	\$ 70,041
200hp water well motor	51,243
	\$ 121,284

**Debt**

The changes in the debt position of the District during the fiscal year ended August 31, 2023, are summarized as follows.

**Harris County Municipal Utility District No. 278**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2023**

Long-term debt payable, beginning of year	\$ 53,307,086
Decreases in long-term debt	<u>(1,519,413)</u>
Long-term debt payable, end of year	<u>\$ 51,787,673</u>

A developer of the District has constructed facilities on behalf of the District under terms of a contract with the District. The District has agreed to reimburse the developer for these costs, plus interest, from the proceeds of future bond sales or available funds, to the extent approved by the Commission. At August 31, 2023, a liability for developer-constructed capital assets of \$601,854 was recorded in the government-wide financial statements.

At August 31, 2023, the District had \$13,560,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry underlying ratings of "BBB+" from Standard & Poor's or "A3" from Moody's Investors Service (Moody's). The Series 2015 refunding and 2018 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2016, 2019 and 2021 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2020 refunding and 2021A bonds carry a "AA" rating from Standard & Poor's and an "A1" rating from Moody's by virtue of bond insurance issued by Assured Guaranty Municipal Corporation.

**Other Relevant Factors**

Relationship to the City of Houston

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

Effective December 12, 2008, the District entered into a Strategic Partnership Agreement (the Agreement) with the City, which annexed certain portions of the District for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for a period of 30 years from the date of the Agreement, at which time the City has the option to annex the District if it chooses to do so. On December 5, 2017, the Agreement was amended to annex an additional tract of land in the District. The Agreement was amended again on December 11, 2019, to provide options at the end of the original term for the City to negotiate a new agreement, allow the Agreement to lapse or to commence full-purpose annexation.

**Harris County Municipal Utility District No. 278**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**August 31, 2023**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>							
Cash	\$ 744,035	\$ 20,002	\$ 56,384	\$ 431	\$ 820,852	\$ -	\$ 820,852
Certificates of deposit	715,000	-	475,000	-	1,190,000	-	1,190,000
Short-term investments	14,811,467	-	2,961,210	6,548,143	24,320,820	-	24,320,820
Receivables:							
Property taxes	28,209	-	46,689	-	74,898	-	74,898
Service accounts	325,925	-	-	-	325,925	-	325,925
Sales tax rebates	28,577	-	-	-	28,577	-	28,577
Accrued penalty and interest	-	-	-	-	-	34,889	34,889
Accrued interest	17,447	-	8,183	-	25,630	-	25,630
Interfund receivables	105,288	185,242	-	-	290,530	(290,530)	-
Prepaid expenditures	8,975	-	-	-	8,975	-	8,975
Due from participants	-	46,745	-	-	46,745	-	46,745
Due from others	119,093	-	-	-	119,093	-	119,093
Capital assets (net of accumulated depreciation):							
Land and improvements	-	-	-	-	-	11,905,612	11,905,612
Construction in progress	-	-	-	-	-	497,197	497,197
Infrastructure	-	-	-	-	-	21,289,990	21,289,990
Total assets	<u>16,904,016</u>	<u>251,989</u>	<u>3,547,466</u>	<u>6,548,574</u>	<u>27,252,045</u>	<u>33,437,158</u>	<u>60,689,203</u>
<b>Deferred Outflows of Resources</b>							
Deferred amount on debt refundings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,126,153</u>	<u>1,126,153</u>
Total assets and deferred outflows of resources	<u>\$ 16,904,016</u>	<u>\$ 251,989</u>	<u>\$ 3,547,466</u>	<u>\$ 6,548,574</u>	<u>\$ 27,252,045</u>	<u>\$ 34,563,311</u>	<u>\$ 61,815,356</u>

**Harris County Municipal Utility District No. 278**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**August 31, 2023**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>							
Accounts payable	\$ 482,590	\$ 95,609	\$ 18,142	\$ 223	\$ 596,564	\$ -	\$ 596,564
Customer deposits	347,545	-	-	-	347,545	-	347,545
Operating deposits	-	53,417	-	-	53,417	-	53,417
Due to others	891,883	-	-	-	891,883	-	891,883
Unearned tap connection fees	46,854	-	-	-	46,854	-	46,854
Interfund payables	185,242	102,963	2,325	-	290,530	(290,530)	-
Long-term liabilities:							
Due within one year	-	-	-	-	-	1,600,000	1,600,000
Due after one year	-	-	-	-	-	50,187,673	50,187,673
<b>Total liabilities</b>	<b>1,954,114</b>	<b>251,989</b>	<b>20,467</b>	<b>223</b>	<b>2,226,793</b>	<b>51,497,143</b>	<b>53,723,936</b>
<b>Deferred Inflows of Resources</b>							
Deferred property tax revenues	28,209	0	46,689	0	74,898	(74,898)	0
<b>Fund Balances/Net Position</b>							
Fund balances:							
Nonspendable, prepaid expenditures	8,975	-	-	-	8,975	(8,975)	-
Restricted:							
Debt service on unlimited tax bonds	-	-	3,480,310	-	3,480,310	(3,480,310)	-
Water, sewer and drainage	-	-	-	6,548,351	6,548,351	(6,548,351)	-
Unassigned	14,912,718	-	-	-	14,912,718	(14,912,718)	-
<b>Total fund balances</b>	<b>14,921,693</b>	<b>0</b>	<b>3,480,310</b>	<b>6,548,351</b>	<b>24,950,354</b>	<b>(24,950,354)</b>	<b>0</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 16,904,016</b>	<b>\$ 251,989</b>	<b>\$ 3,547,466</b>	<b>\$ 6,548,574</b>	<b>\$ 27,252,045</b>		
Net position:							
Net investment in capital assets						111,551	111,551
Restricted for debt service						3,561,888	3,561,888
Restricted for capital projects						470,449	470,449
Unrestricted						3,947,532	3,947,532
<b>Total net position</b>						<b>\$ 8,091,420</b>	<b>\$ 8,091,420</b>

**Harris County Municipal Utility District No. 278**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended August 31, 2023**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>							
Property taxes	\$ 2,635,197	\$ -	\$ 3,261,342	\$ -	\$ 5,896,539	\$ (3,268)	\$ 5,893,271
City of Houston rebates	121,650	-	-	-	121,650	-	121,650
Water service	1,466,598	-	-	-	1,466,598	-	1,466,598
Sewer service	1,369,418	898,081	-	-	2,267,499	(706,150)	1,561,349
Surface water conversion	458,098	-	-	-	458,098	-	458,098
Penalty and interest	206,569	-	48,807	-	255,376	(4,244)	251,132
Tap connection and inspection fees	129,850	-	-	-	129,850	-	129,850
Investment income	649,923	-	227,311	292,142	1,169,376	-	1,169,376
Other income	12,629	-	-	-	12,629	-	12,629
<b>Total revenues</b>	<b>7,049,932</b>	<b>898,081</b>	<b>3,537,460</b>	<b>292,142</b>	<b>11,777,615</b>	<b>(713,662)</b>	<b>11,063,953</b>
<b>Expenditures/Expenses</b>							
Service operations:							
Purchased services	1,380,216	-	-	-	1,380,216	(706,150)	674,066
Lease payments	107,700	-	-	-	107,700	-	107,700
Professional fees	324,303	23,423	14,288	-	362,014	867	362,881
Contracted services	1,119,736	78,719	79,904	-	1,278,359	-	1,278,359
Utilities	94,256	138,942	-	-	233,198	-	233,198
Repairs and maintenance	698,679	631,454	-	-	1,330,133	86,000	1,416,133
Other expenditures	343,644	25,543	17,582	610	387,379	-	387,379
Tap connections	38,819	-	-	-	38,819	-	38,819
Capital outlay	170,264	-	-	37,887	208,151	(208,151)	-
Depreciation	-	-	-	-	-	914,575	914,575
Debt service:							
Principal retirement	-	-	1,525,000	-	1,525,000	(1,525,000)	-
Interest and fees	-	-	1,892,288	-	1,892,288	72,242	1,964,530
<b>Total expenditures/expenses</b>	<b>4,277,617</b>	<b>898,081</b>	<b>3,529,062</b>	<b>38,497</b>	<b>8,743,257</b>	<b>(1,365,617)</b>	<b>7,377,640</b>
<b>Excess of Revenues Over Expenditures</b>	<b>2,772,315</b>	<b>-</b>	<b>8,398</b>	<b>253,645</b>	<b>3,034,358</b>	<b>(3,034,358)</b>	
<b>Change in Net Position</b>						<b>3,686,313</b>	<b>3,686,313</b>
<b>Fund Balances/Net Position</b>							
Beginning of year	12,149,378	-	3,471,912	6,294,706	21,915,996	-	4,405,107
End of year	\$ 14,921,693	\$ 0	\$ 3,480,310	\$ 6,548,351	\$ 24,950,354	\$ 0	\$ 8,091,420

# Harris County Municipal Utility District No. 278

## Notes to Financial Statements

### August 31, 2023

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

Harris County Municipal Utility District No. 278 (the District), was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective March 27, 1985, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

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

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

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

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

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

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

# Harris County Municipal Utility District No. 278

## Notes to Financial Statements

### August 31, 2023

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

The District presents the following major governmental funds:

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

*Special Revenue Fund* – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is participant fees.

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

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

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

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

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

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

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

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

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



# Harris County Municipal Utility District No. 278

## Notes to Financial Statements

August 31, 2023

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

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

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

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

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

#### **Fund Financial Statements**

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

# Harris County Municipal Utility District No. 278

## Notes to Financial Statements

### August 31, 2023

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

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

#### ***Interfund Transactions***

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

#### ***Pension Costs***

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

#### ***Use of Estimates***

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

#### ***Investments and Investment Income***

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

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

#### ***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended August 31, 2023, include collections during the current period or within 60 days of year-end related to the 2022 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended August 31, 2023, the 2022 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

**Capital Assets**

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

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

Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District.

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

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

**Deferred Amount on Debt Refundings**

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

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

***Debt Issuance Costs***

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

***Long-term Obligations***

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

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

***Net Position/Fund Balances***

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

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

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

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 33,692,799
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	74,898
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	34,889

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	\$ 1,126,153
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(51,787,673)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (16,858,934)</u></u>

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

Change in fund balances.	\$ 3,034,358
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and noncapitalized costs exceeded capital outlay expenditures in the current period.	(793,291)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	1,525,000
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.	(7,512)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(72,242)</u>
Change in net position of governmental activities.	<u><u>\$ 3,686,313</u></u>

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

***Deposits***

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

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

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

At August 31, 2023, none of the District's bank balances were exposed to custodial credit risk.

**Investments**

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

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

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. The District's investments in Texas CLASS are reported at net asset value.

At August 31, 2023, the District had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Texas CLASS	\$ 24,320,820	\$ 24,320,820	\$ 0	\$ 0	\$ 0

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

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

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At August 31, 2023, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

**Summary of Carrying Values**

The carrying values of deposits and investments shown previously are included in the balance sheet at August 31, 2023, as follows:

Carrying value:	
Deposits	\$ 2,010,852
Investments	24,320,820
Total	\$ 26,331,672

Included in the following statement of net position captions:

Cash	\$ 820,852
Certificates of deposit	1,190,000
Short-term investments	24,320,820
Total	\$ 26,331,672

**Investment Income**

Investment income of \$1,169,376 for the year ended August 31, 2023, consisted of interest income.

**Fair Value Measurements**

The District has the following recurring fair value measurements as of August 31, 2023:

- Pooled investments of \$24,320,820 are valued at fair value per share of the pool's underlying portfolio.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended August 31, 2023, is presented below.

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Balances, End of Year</b>
Capital assets, non-depreciable:			
Land and improvements	\$ 11,905,612	\$ -	\$ 11,905,612
Construction in progress	427,156	70,041	497,197
Total capital assets, non-depreciable	<u>12,332,768</u>	<u>70,041</u>	<u>12,402,809</u>
Capital assets, depreciable:			
Water production and distribution facilities	13,257,474	51,243	13,308,717
Wastewater collection and treatment facilities	21,650,566	-	21,650,566
Total capital assets, depreciable	<u>34,908,040</u>	<u>51,243</u>	<u>34,959,283</u>
Less accumulated depreciation:			
Water production and distribution facilities	(4,604,380)	(330,787)	(4,935,167)
Wastewater collection and treatment facilities	(8,150,338)	(583,788)	(8,734,126)
Total accumulated depreciation	<u>(12,754,718)</u>	<u>(914,575)</u>	<u>(13,669,293)</u>
Total governmental activities, net	<u>\$ 34,486,090</u>	<u>\$ (793,291)</u>	<u>\$ 33,692,799</u>

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended August 31, 2023, were as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:				
General obligation bonds	\$ 53,215,000	\$ 1,525,000	\$ 51,690,000	\$ 1,600,000
Add premiums on bonds	297,668	23,212	274,456	-
Less discounts on bonds	807,436	28,799	778,637	-
	52,705,232	1,519,413	51,185,819	1,600,000
Due to developer	601,854	-	601,854	-
Total governmental activities long-term liabilities	<u>\$ 53,307,086</u>	<u>\$ 1,519,413</u>	<u>\$ 51,787,673</u>	<u>\$ 1,600,000</u>



**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

**General Obligation Bonds**

	<b>Refunding Series 2015</b>	<b>Series 2016</b>
Amounts outstanding, August 31, 2023	\$19,700,000	\$11,350,000
Interest rates	2.00% to 4.00%	4.00% to 4.25%
Maturity dates, serially beginning/ending	September 1, 2024/2036	September 1, 2024/2043
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	September 1, 2022	September 1, 2023
	<b>Refunding Series 2018</b>	<b>Series 2019</b>
Amounts outstanding, August 31, 2023	\$2,720,000	\$6,075,000
Interest rates	2.25% to 4.00%	3.00% to 5.50%
Maturity dates, serially beginning/ending	September 1, 2024/2037	September 1, 2024/2046
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	September 1, 2023	September 1, 2024
	<b>Refunding Series 2020</b>	<b>Refunding Series 2021</b>
Amounts outstanding, August 31, 2023	\$3,815,000	\$2,425,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2024/2031	September 1, 2024/2038
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	September 1, 2025	September 1, 2026

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

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

	<b>Series 2021A</b>
Amount outstanding, August 31, 2023	\$5,605,000
Interest rates	2.500% to 2.625%
Maturity dates, serially beginning/ending	September 1, 2038/2047
Interest payment dates	March 1/ September 1
Callable date*	September 1, 2026

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

**Annual Debt Service Requirements**

The District has been paying the amount due September 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in future years. The schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at August 31, 2023:

Year	Principal	Interest	Total
2024	\$ 1,600,000	\$ 1,827,913	\$ 3,427,913
2025	1,655,000	1,768,612	3,423,612
2026	1,705,000	1,707,263	3,412,263
2027	1,755,000	1,655,950	3,410,950
2028	1,810,000	1,601,149	3,411,149
2029-2033	10,105,000	7,062,645	17,167,645
2034-2038	11,715,000	4,949,893	16,664,893
2039-2043	10,955,000	2,890,844	13,845,844
2044-2047	10,390,000	748,764	11,138,764
Total	\$ 51,690,000	\$ 24,213,033	\$ 75,903,033

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

Voter-authorized bonds voted	\$ 80,400,000
Bonds sold	66,840,000
Voter-authorized refunding bonds voted	80,400,000
Refunding bond authorization used	2,583,867*

\*The District has issued \$46,790,000 of refunding bonds; however, of such amount, \$2,583,867 has been applied to the voter-authorized bonds and the remaining \$44,206,133 has been issued pursuant to Chapter 1207 of the Texas Government Code.

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

***Due to Developer***

A developer of the District has constructed facilities on behalf of the District under terms of a contract with the District. The District has agreed to reimburse the developer for these costs, plus interest, from the proceeds of future bond sales or available funds, to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$601,854. This amount has been recorded in the financial statements as long-term liabilities.

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

The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended August 31, 2023, the District levied an ad valorem debt service tax at the rate of \$0.4200 per \$100 of assessed valuation, which resulted in a tax levy of \$3,260,188 on the taxable valuation of \$776,235,307 for the 2022 tax year. The interest and principal requirements paid from the tax revenues and available resources were \$3,412,038.

**Note 6: Maintenance Taxes**

At an election held May 1, 1993, voters authorized a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended August 31, 2023, the District levied an ad valorem maintenance tax at the rate of \$0.3400 per \$100 of assessed valuation, which resulted in a tax levy of \$2,639,200 on the taxable valuation of \$776,235,307 for the 2022 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

**Note 7: Wastewater Treatment Plant Lease**

On November 11, 2015, the District entered into a lease of digester basins, chlorine basin and associated equipment. The lease term is for 60 months with monthly payments of \$12,625 upon substantial completion of the installation, which occurred in December 2016. After the initial term, which concluded in the prior year, the lease continues on a month-to-month basis with monthly payments of \$8,975. During the current year, the District incurred fees of \$107,700 related to the lease.

**Note 8: Strategic Partnership Agreement**

Effective December 12, 2008, the District and the City of Houston (the City) entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all

**Harris County Municipal Utility District No. 278**  
**Notes to Financial Statements**  
**August 31, 2023**

powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all City sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales and use tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full-purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years. On December 5, 2017, the Agreement was amended to annex an additional tract of land in the District. The Agreement was amended again on December 11, 2019, to provide options at the end of the original term for the City to negotiate a new agreement, allow the Agreement to lapse or to commence full-purpose annexation. During the current year, the District recorded \$121,650 in revenues related to the Agreement.

**Note 9: Sanitary Sewage Treatment and Disposal Agreement With Harris County**

Effective January 8, 2013, and as amended December 5, 2017, the District entered into a 15-year agreement with Harris County to provide capacity to treat wastewater from Harris County at the District's wastewater treatment plant No. 3. Harris County must pay a monthly service fee. Fixed operating costs are shared based on allocated capacity. Variable operating costs are shared based on total amount of waste delivered to the plant by Harris County as a percentage of total waste delivered. Harris County has paid the District a security deposit of \$53,417 as a plant operating reserve.

For the year ended August 31, 2023, the District billed Harris County and the District \$191,931 and \$706,150, respectively.

**Note 10: Water Supply Agreement with the City of Houston**

The District has entered into a Groundwater Reduction Plan Wholesale Agreement with the City, whereby the City will sell and deliver treated water to the District at the rate set by ordinance by the City for contract-treated customers. As of August 31, 2023, the rate was \$4.29 per thousand gallons, plus \$1.06 per thousand gallons over the minimum requirement. The District paid \$674,066 for purchased water during the fiscal year ended August 31, 2023.

**Note 11: Risk Management**

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

## **Required Supplementary Information**

**Harris County Municipal Utility District No. 278**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended August 31, 2023**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 2,674,039	\$ 2,635,197	\$ (38,842)
City of Houston rebates	113,000	121,650	8,650
Water service	1,422,000	1,466,598	44,598
Sewer service	1,321,700	1,369,418	47,718
Surface water conversion	509,100	458,098	(51,002)
Penalty and interest	197,500	206,569	9,069
Tap connection and inspection fees	110,900	129,850	18,950
Investment income	195,800	649,923	454,123
Other income	4,100	12,629	8,529
	<u>6,548,139</u>	<u>7,049,932</u>	<u>501,793</u>
<b>Expenditures</b>			
Service operations:			
Purchased services	997,141	1,380,216	(383,075)
Lease payments	122,300	107,700	14,600
Professional fees	372,000	324,303	47,697
Contracted services	956,905	1,119,736	(162,831)
Utilities	111,400	94,256	17,144
Repairs and maintenance	797,500	698,679	98,821
Other expenditures	224,691	343,644	(118,953)
Tap connections	42,000	38,819	3,181
Capital outlay	672,918	170,264	502,654
	<u>4,296,855</u>	<u>4,277,617</u>	<u>19,238</u>
<b>Excess of Revenues Over Expenditures</b>	2,251,284	2,772,315	521,031
<b>Fund Balance, Beginning of Year</b>	<u>12,149,378</u>	<u>12,149,378</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 14,400,662</u>	<u>\$ 14,921,693</u>	<u>\$ 521,031</u>

**Harris County Municipal Utility District No. 278**  
**Budgetary Comparison Schedule – Special Revenue Fund**  
**Year Ended August 31, 2023**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Service fees	\$ 754,625	\$ 898,081	\$ 143,456
Other income	5	-	(5)
Total revenues	<u>754,630</u>	<u>898,081</u>	<u>143,451</u>
<b>Expenditures</b>			
Service operations:			
Professional fees	19,100	23,423	(4,323)
Contracted services	73,780	78,719	(4,939)
Utilities	125,800	138,942	(13,142)
Repairs and maintenance	510,200	631,454	(121,254)
Other expenditures	<u>25,750</u>	<u>25,543</u>	<u>207</u>
Total expenditures	<u>754,630</u>	<u>898,081</u>	<u>(143,451)</u>
<b>Excess of Revenues Over Expenditures</b>	-	-	-
<b>Fund Balance, Beginning of Year</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Harris County Municipal Utility District No. 278**  
**Notes to Required Supplementary Information**  
**August 31, 2023**

***Budgets and Budgetary Accounting***

Annual operating budgets are prepared for the general and special revenue funds by the District's consultants. The budgets reflect resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budgets prior to the start of its fiscal year. The budgets are not a spending limitation (a legally restricted appropriation). The original budgets for the general fund and the special revenue fund were not amended during fiscal 2023.

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



## **Supplementary Information**

**Harris County Municipal Utility District No. 278**  
**Other Schedules Included Within This Report**  
**August 31, 2023**

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

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 13-26
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants

# Harris County Municipal Utility District No. 278

## Schedule of Services and Rates

### Year Ended August 31, 2023

1. Services provided by the District:

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

2. Retail service providers

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 24.35	1,000	N	\$ 1.25	1,001 to 5,000
				\$ 2.25	5,001 to 10,000
				\$ 3.25	10,001 to 20,000
				\$ 4.25	20,001 to No Limit
Wastewater:	\$ 34.35	0	Y		
City of Houston GRP fee:	\$ 1.71	1	N	\$ 1.71	1 to No Limit
Does the District employ winter averaging for wastewater usage?					Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Total charges per 10,000 gallons usage (including fees):				Water \$ 57.70	Wastewater \$ 34.35

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	3,183	3,159	x1.0	3,159
1"	93	93	x2.5	233
1 1/2"	18	17	x5.0	85
2"	32	31	x8.0	248
3"	-	-	x15.0	-
4"	1	1	x25.0	25
6"	1	1	x50.0	50
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	3,329	3,303		3,880
Total wastewater	3,288	3,264	x1.0	3,264

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

Gallons pumped into the system:	313,273
Gallons billed to customers:	279,754
Water accountability ratio (gallons billed/gallons pumped):	89.30%

\*"ESFC" means equivalent single-family connections

**Harris County Municipal Utility District No. 278**  
**Schedule of General Fund Expenditures**  
**Year Ended August 31, 2023**

<b>Personnel (including benefits)</b>		\$ -
<b>Professional Fees</b>		
Auditing	\$ 25,400	
Legal	173,267	
Engineering	125,636	
Financial advisor	-	
	-	324,303
<b>Purchased Services for Resale</b>		
Bulk water and wastewater service purchases		1,380,216
<b>Regional Water Fee</b>		-
<b>Contracted Services</b>		
Bookkeeping	85,456	
General manager	-	
Appraisal district	-	
Tax collector	-	
Security	3,165	
Other contracted services	244,099	
	244,099	332,720
<b>Utilities</b>		94,256
<b>Repairs and Maintenance</b>		698,679
<b>Administrative Expenditures</b>		
Directors' fees	27,284	
Office supplies	38,184	
Insurance	43,060	
Other administrative expenditures	235,116	
	235,116	343,644
<b>Capital Outlay</b>		
Capitalized assets	84,264	
Expenditures not capitalized	86,000	
	86,000	170,264
<b>Tap Connection Expenditures</b>		38,819
<b>Solid Waste Disposal</b>		787,016
<b>Lease Payments</b>		107,700
<b>Parks and Recreation</b>		-
<b>Other Expenditures</b>		-
Total expenditures		\$ 4,277,617

**Harris County Municipal Utility District No. 278**  
**Schedule of Temporary Investments**  
**August 31, 2023**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
Certificates of Deposit				
No. 12064	5.00%	07/03/24	\$ 235,000	\$ 1,867
No. 440005204	3.50%	09/25/23	240,000	7,802
No. 197869050	3.50%	09/26/23	240,000	7,778
Texas CLASS	5.49%	Demand	12,887,612	-
Texas CLASS	5.49%	Demand	1,446,003	-
Texas CLASS	5.49%	Demand	477,852	-
			<u>15,526,467</u>	<u>17,447</u>
<b>Debt Service Fund</b>				
Certificates of Deposit				
No. 440010324	3.50%	09/26/23	240,000	7,801
No. 6002400109	5.39%	08/19/24	235,000	382
Texas CLASS	5.49%	Demand	2,961,210	-
			<u>3,436,210</u>	<u>8,183</u>
<b>Capital Projects Fund</b>				
Texas CLASS	5.49%	Demand	6,548,143	0
Totals			<u>\$ 25,510,820</u>	<u>\$ 25,630</u>

**Harris County Municipal Utility District No. 278**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended August 31, 2023**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 26,796	\$ 51,370
Additions and corrections to prior years' taxes	(2,590)	(3,527)
Adjusted receivable, beginning of year	24,206	47,843
 <b>2022 Original Tax Levy</b>	 2,369,294	 2,926,774
Additions and corrections	269,906	333,414
Adjusted tax levy	2,639,200	3,260,188
Total to be accounted for	2,663,406	3,308,031
Tax collections: Current year	(2,623,064)	(3,240,256)
Prior years	(12,133)	(21,086)
Receivable, end of year	\$ 28,209	\$ 46,689
 <b>Receivable, by Years</b>		
2022	\$ 16,136	\$ 19,932
2021	4,900	6,300
2020	2,044	4,825
2019	798	1,831
2018	493	1,145
2017	1,388	3,146
2016	772	1,878
2015	335	1,072
2014	228	1,156
2013	197	1,279
2012	179	1,162
2011	193	817
2010	190	777
2009	255	990
2006	101	379
Receivable, end of year	\$ 28,209	\$ 46,689

**Harris County Municipal Utility District No. 278**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended August 31, 2023**

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Property Valuations</b>				
Land	\$ 119,890,205	\$ 113,688,412	\$ 111,888,724	\$ 90,421,352
Improvements	765,327,224	599,054,340	540,986,488	498,001,147
Personal property	15,393,029	11,174,810	11,197,362	9,830,159
Exemptions	<u>(124,375,151)</u>	<u>(56,390,666)</u>	<u>(38,941,058)</u>	<u>(38,849,479)</u>
 Total property valuations	 <u>\$ 776,235,307</u>	 <u>\$ 667,526,896</u>	 <u>\$ 625,131,516</u>	 <u>\$ 559,403,179</u>
 <b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.4200	\$ 0.4500	\$ 0.5900	\$ 0.6200
Maintenance tax rates*	<u>0.3400</u>	<u>0.3500</u>	<u>0.2500</u>	<u>0.2700</u>
 Total tax rates per \$100 valuation	 <u>\$ 0.7600</u>	 <u>\$ 0.8000</u>	 <u>\$ 0.8400</u>	 <u>\$ 0.8900</u>
 <b>Tax Levy</b>	 <u>\$ 5,899,388</u>	 <u>\$ 5,340,215</u>	 <u>\$ 5,251,105</u>	 <u>\$ 4,978,688</u>
 <b>Percent of Taxes Collected to Taxes Levied**</b>	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>

\*Maximum tax rate approved by voters: \$1.00 on May 1, 1993

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

**Harris County Municipal Utility District No. 278**  
**Schedule of Long-term Debt Service Requirements by Years**  
**August 31, 2023**

<b>Due During Fiscal Years Ending August 31</b>	<b>Refunding Series 2015</b>		
	<b>Principal Due September 1</b>	<b>Interest Due March 1, September 1</b>	<b>Total</b>
2024	\$ 1,015,000	\$ 753,669	\$ 1,768,669
2025	1,045,000	718,144	1,763,144
2026	1,075,000	681,569	1,756,569
2027	1,115,000	646,631	1,761,631
2028	1,155,000	607,606	1,762,606
2029	1,190,000	565,738	1,755,738
2030	1,235,000	521,113	1,756,113
2031	1,280,000	474,800	1,754,800
2032	1,955,000	423,600	2,378,600
2033	2,035,000	345,400	2,380,400
2034	2,120,000	264,000	2,384,000
2035	2,210,000	179,200	2,389,200
2036	2,270,000	90,800	2,360,800
Totals	<u>\$ 19,700,000</u>	<u>\$ 6,272,270</u>	<u>\$ 25,972,270</u>

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.



**Harris County Municipal Utility District No. 278**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2023**

Due During Fiscal Years Ending August 31	Series 2016		
	Principal Due September 1	Interest Due March 1, September 1	Total
2024	\$ 50,000	\$ 480,875	\$ 530,875
2025	50,000	478,875	528,875
2026	50,000	476,875	526,875
2027	50,000	474,875	524,875
2028	50,000	472,875	522,875
2029	50,000	470,875	520,875
2030	50,000	468,875	518,875
2031	50,000	466,875	516,875
2032	50,000	464,875	514,875
2033	50,000	462,875	512,875
2034	50,000	460,875	510,875
2035	50,000	458,875	508,875
2036	50,000	456,875	506,875
2037	50,000	454,750	504,750
2038	475,000	452,625	927,625
2039	1,850,000	432,438	2,282,438
2040	1,950,000	353,812	2,303,812
2041	2,025,000	270,938	2,295,938
2042	2,125,000	184,875	2,309,875
2043	2,225,000	94,562	2,319,562
Totals	\$ 11,350,000	\$ 8,339,375	\$ 19,689,375

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

**Harris County Municipal Utility District No. 278**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2023**

<b>Due During Fiscal Years Ending August 31</b>	<b>Refunding Series 2018</b>		
	<b>Principal Due September 1</b>	<b>Interest Due March 1, September 1</b>	<b>Total</b>
2024	\$ 55,000	\$ 108,800	\$ 163,800
2025	55,000	106,600	161,600
2026	55,000	104,400	159,400
2027	55,000	102,200	157,200
2028	55,000	100,000	155,000
2029	55,000	97,800	152,800
2030	55,000	95,600	150,600
2031	55,000	93,400	148,400
2032	80,000	91,200	171,200
2033	80,000	88,000	168,000
2034	80,000	84,800	164,800
2035	75,000	81,600	156,600
2036	75,000	78,600	153,600
2037	<u>1,890,000</u>	<u>75,600</u>	<u>1,965,600</u>
Totals	<u>\$ 2,720,000</u>	<u>\$ 1,308,600</u>	<u>\$ 4,028,600</u>

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

**Harris County Municipal Utility District No. 278**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2023**

Due During Fiscal Years Ending August 31	Series 2019		
	Principal Due September 1	Interest Due March 1, September 1	Total
2024	\$ 25,000	\$ 195,219	\$ 220,219
2025	25,000	193,843	218,843
2026	25,000	192,469	217,469
2027	25,000	191,094	216,094
2028	25,000	189,718	214,718
2029	25,000	188,344	213,344
2030	25,000	186,969	211,969
2031	25,000	185,593	210,593
2032	25,000	184,219	209,219
2033	25,000	182,844	207,844
2034	25,000	181,468	206,468
2035	25,000	180,719	205,719
2036	25,000	179,969	204,969
2037	25,000	179,218	204,218
2038	50,000	178,469	228,469
2039	50,000	176,969	226,969
2040	50,000	175,468	225,468
2041	50,000	173,969	223,969
2042	50,000	172,469	222,469
2043	100,000	170,969	270,969
2044	1,400,000	167,969	1,567,969
2045	1,825,000	124,219	1,949,219
2046	2,150,000	67,188	2,217,188
Totals	<u>\$ 6,075,000</u>	<u>\$ 4,019,375</u>	<u>\$ 10,094,375</u>

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

**Harris County Municipal Utility District No. 278**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2023**

<b>Due During Fiscal Years Ending August 31</b>	<b>Refunding Series 2020</b>		
	<b>Principal Due September 1</b>	<b>Interest Due March 1, September 1</b>	<b>Total</b>
2024	\$ 420,000	\$ 93,600	\$ 513,600
2025	445,000	76,800	521,800
2026	460,000	59,000	519,000
2027	470,000	49,800	519,800
2028	485,000	40,400	525,400
2029	500,000	30,700	530,700
2030	510,000	20,700	530,700
2031	525,000	10,500	535,500
Totals	\$ 3,815,000	\$ 381,500	\$ 4,196,500

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

**Harris County Municipal Utility District No. 278**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2023**

Due During Fiscal Years Ending August 31	Refunding Series 2021		
	Principal Due September 1	Interest Due March 1, September 1	Total
2024	\$ 35,000	\$ 50,700	\$ 85,700
2025	35,000	49,300	84,300
2026	40,000	47,900	87,900
2027	40,000	46,300	86,300
2028	40,000	45,500	85,500
2029	35,000	44,700	79,700
2030	35,000	44,000	79,000
2031	35,000	43,300	78,300
2032	35,000	42,600	77,600
2033	35,000	41,900	76,900
2034	35,000	41,200	76,200
2035	35,000	40,500	75,500
2036	35,000	39,800	74,800
2037	675,000	39,100	714,100
2038	1,280,000	25,600	1,305,600
Totals	\$ 2,425,000	\$ 642,400	\$ 3,067,400

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

**Harris County Municipal Utility District No. 278**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2023**

Due During Fiscal Years Ending August 31	Series 2021A		
	Principal Due September 1	Interest Due March 1, September 1	Total
2024	\$ -	\$ 145,050	\$ 145,050
2025	-	145,050	145,050
2026	-	145,050	145,050
2027	-	145,050	145,050
2028	-	145,050	145,050
2029	-	145,050	145,050
2030	-	145,050	145,050
2031	-	145,050	145,050
2032	-	145,050	145,050
2033	-	145,050	145,050
2034	-	145,050	145,050
2035	-	145,050	145,050
2036	-	145,050	145,050
2037	-	145,050	145,050
2038	110,000	145,050	255,050
2039	115,000	142,300	257,300
2040	100,000	139,425	239,425
2041	110,000	136,925	246,925
2042	105,000	134,175	239,175
2043	50,000	131,550	181,550
2044	1,075,000	130,300	1,205,300
2045	730,000	103,425	833,425
2046	490,000	84,263	574,263
2047	2,720,000	71,400	2,791,400
Totals	\$ 5,605,000	\$ 3,249,513	\$ 8,854,513

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

**Harris County Municipal Utility District No. 278**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2023**

Due During Fiscal Years Ending August 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2024	\$ 1,600,000	\$ 1,827,913	\$ 3,427,913
2025	1,655,000	1,768,612	3,423,612
2026	1,705,000	1,707,263	3,412,263
2027	1,755,000	1,655,950	3,410,950
2028	1,810,000	1,601,149	3,411,149
2029	1,855,000	1,543,207	3,398,207
2030	1,910,000	1,482,307	3,392,307
2031	1,970,000	1,419,518	3,389,518
2032	2,145,000	1,351,544	3,496,544
2033	2,225,000	1,266,069	3,491,069
2034	2,310,000	1,177,393	3,487,393
2035	2,395,000	1,085,944	3,480,944
2036	2,455,000	991,094	3,446,094
2037	2,640,000	893,718	3,533,718
2038	1,915,000	801,744	2,716,744
2039	2,015,000	751,707	2,766,707
2040	2,100,000	668,705	2,768,705
2041	2,185,000	581,832	2,766,832
2042	2,280,000	491,519	2,771,519
2043	2,375,000	397,081	2,772,081
2044	2,475,000	298,269	2,773,269
2045	2,555,000	227,644	2,782,644
2046	2,640,000	151,451	2,791,451
2047	2,720,000	71,400	2,791,400
Totals	\$ 51,690,000	\$ 24,213,033	\$ 75,903,033

# Harris County Municipal Utility District No. 278

## Changes in Long-term Bonded Debt

### Year Ended August 31, 2023

	<b>Bond</b>			
	<b>Refunding Series 2015</b>	<b>Series 2016</b>	<b>Refunding Series 2018</b>	<b>Series 2019</b>
Interest rates	2.00% to 4.00%	4.00% to 4.25%	2.25% to 4.00%	3.00% to 5.50%
Dates interest payable	March 1/ September 1	March 1/ September 1	March 1/ September 1	March 1/ September 1
Maturity dates	September 1, 2024/2036	September 1, 2024/2043	September 1, 2024/2037	September 1, 2024/2046
Bonds outstanding, beginning of current year	\$ 19,925,000	\$ 11,400,000	\$ 2,775,000	\$ 6,100,000
Retirements, principal	225,000	50,000	55,000	25,000
Bonds outstanding, end of current year	\$ 19,700,000	\$ 11,350,000	\$ 2,720,000	\$ 6,075,000
Interest paid during current year	\$ 760,419	\$ 482,875	\$ 111,000	\$ 196,594

Paying agent's name and address:

**Series 2015R** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas  
**Series 2016** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas  
**Series 2018R** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas  
**Series 2019** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas  
**Series 2020R** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas  
**Series 2021R** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas  
**Series 2021A** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 80,400,000	0	\$ 80,400,000
Amount of voter authorized issued bonds	\$ 66,840,000	0	\$ 2,583,867 *
Voter authorized but unissued bonds	\$ 13,560,000	0	\$ 77,816,133

Debt service fund cash and temporary investment balances as of August 31, 2023: \$ 3,492,594

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 3,162,626

\*The District has issued \$46,790,000 of refunding bonds; however, of such amount, \$2,583,867 has been applied to the voter-authorized bonds and the remaining \$44,206,133 has been issued pursuant to Chapter 1207 of the Texas Government Code.



**Issues**

<b>Refunding Series 2020</b>	<b>Refunding Series 2021</b>	<b>Series 2021A</b>	<b>Totals</b>
2.00% to 4.00%	2.00% to 4.00%	2.500% to 2.625%	
March 1/ September 1	March 1/ September 1	March 1/ September 1	
September 1, 2024/2031	September 1, 2024/2038	September 1, 2038/2047	
\$ 4,235,000	\$ 3,175,000	\$ 5,605,000	\$ 53,215,000
<u>420,000</u>	<u>750,000</u>	<u>-</u>	<u>1,525,000</u>
<u>\$ 3,815,000</u>	<u>\$ 2,425,000</u>	<u>\$ 5,605,000</u>	<u>\$ 51,690,000</u>
<u>\$ 110,400</u>	<u>\$ 80,700</u>	<u>\$ 145,050</u>	<u>\$ 1,887,038</u>

**Harris County Municipal Utility District No. 278**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended August 31,**

	Amounts				
	2023	2022	2021	2020	2019
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 2,635,197	\$ 2,330,290	\$ 1,564,811	\$ 1,499,550	\$ 1,395,038
City of Houston rebates	121,650	118,273	110,426	86,743	73,733
Water service	1,466,598	1,372,851	1,277,590	1,201,872	1,133,912
Sewer service	1,369,418	1,300,227	1,259,846	1,172,408	1,136,816
Surface water conversion	458,098	443,229	408,459	744,748	721,721
Penalty and interest	206,569	192,409	150,296	158,694	192,856
Tap connection and inspection fees	129,850	102,380	165,618	189,401	163,432
Investment income	649,923	66,113	33,698	135,892	150,815
Other income	12,629	4,630	5,380	1,984	4,548
Total revenues	<u>7,049,932</u>	<u>5,930,402</u>	<u>4,976,124</u>	<u>5,191,292</u>	<u>4,972,871</u>
<b>Expenditures</b>					
Service operations:					
Purchased services	1,380,216	917,199	835,178	832,335	747,646
Lease payments	107,700	125,950	151,500	151,500	151,500
Professional fees	324,303	359,289	330,127	289,945	302,934
Contracted services	1,119,736	910,277	877,305	879,114	835,732
Utilities	94,256	110,868	87,535	86,776	84,165
Repairs and maintenance	698,679	751,176	810,584	764,788	715,742
Other expenditures	343,644	279,136	195,756	228,798	207,555
Tap connections	38,819	38,788	43,393	61,418	53,539
Capital outlay	170,264	244,926	95,432	402,024	92,088
Debt service, debt issuance costs	-	-	20,568	33,184	-
Total expenditures	<u>4,277,617</u>	<u>3,737,609</u>	<u>3,447,378</u>	<u>3,729,882</u>	<u>3,190,901</u>
<b>Excess of Revenues Over Expenditures</b>	<u>2,772,315</u>	<u>2,192,793</u>	<u>1,528,746</u>	<u>1,461,410</u>	<u>1,781,970</u>
<b>Other Financing Sources</b>					
Interfund transfers in	-	53,752	-	-	83,311
Proceeds from insurance	-	-	-	17,730	-
Reimbursement from other governmental agency	-	100,000	-	-	-
Total other financing sources	<u>0</u>	<u>153,752</u>	<u>0</u>	<u>17,730</u>	<u>83,311</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>2,772,315</u>	<u>2,346,545</u>	<u>1,528,746</u>	<u>1,479,140</u>	<u>1,865,281</u>
<b>Fund Balance, Beginning of Year</b>	<u>12,149,378</u>	<u>9,802,833</u>	<u>8,274,087</u>	<u>6,794,947</u>	<u>4,929,666</u>
<b>Fund Balance, End of Year</b>	<u>\$ 14,921,693</u>	<u>\$ 12,149,378</u>	<u>\$ 9,802,833</u>	<u>\$ 8,274,087</u>	<u>\$ 6,794,947</u>
<b>Total Active Retail Water Connections</b>	<u>3,303</u>	<u>3,289</u>	<u>3,222</u>	<u>3,152</u>	<u>3,092</u>
<b>Total Active Retail Wastewater Connections</b>	<u>3,264</u>	<u>3,154</u>	<u>3,189</u>	<u>3,121</u>	<u>3,059</u>

**Percent of Fund Total Revenues**

<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
37.4 %	39.3 %	31.5 %	28.9 %	28.0 %
1.7	2.0	2.2	1.7	1.5
20.8	23.1	25.7	23.2	22.8
19.4	21.9	25.3	22.6	22.9
6.5	7.5	8.2	14.3	14.5
2.9	3.3	3.0	3.1	3.9
1.9	1.7	3.3	3.6	3.3
9.2	1.1	0.7	2.6	3.0
0.2	0.1	0.1	0.0	0.1
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
19.6	15.5	16.8	16.0	15.0
1.5	2.1	3.1	2.9	3.0
4.6	6.1	6.6	5.6	6.1
15.9	15.3	17.6	16.9	16.8
1.3	1.8	1.8	1.7	1.7
9.9	12.7	16.3	14.7	14.4
4.9	4.7	3.9	4.4	4.1
0.6	0.7	0.9	1.2	1.1
2.4	4.1	1.9	7.8	1.9
-	-	0.4	0.6	-
<u>60.7</u>	<u>63.0</u>	<u>69.3</u>	<u>71.8</u>	<u>64.1</u>
<u><u>39.3 %</u></u>	<u><u>37.0 %</u></u>	<u><u>30.7 %</u></u>	<u><u>28.2 %</u></u>	<u><u>35.9 %</u></u>

**Harris County Municipal Utility District No. 278**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended August 31,**

	Amounts				
	2023	2022	2021	2020	2019
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 3,261,342	\$ 3,007,113	\$ 3,692,899	\$ 3,441,030	\$ 3,241,065
Penalty and interest	48,807	42,501	36,403	29,383	42,040
Investment income	227,311	27,589	21,864	83,513	108,932
Total revenues	<u>3,537,460</u>	<u>3,077,203</u>	<u>3,751,166</u>	<u>3,553,926</u>	<u>3,392,037</u>
<b>Expenditures</b>					
Current:					
Professional fees	14,288	14,207	13,725	10,299	15,020
Contracted services	79,904	83,742	93,452	81,332	78,937
Other expenditures	17,582	8,168	7,656	23,946	4,715
Debt service:					
Principal retirement	1,525,000	1,455,000	1,435,000	1,380,000	1,330,000
Interest and fees	1,892,288	1,914,074	1,836,099	1,935,298	1,802,233
Debt issuance costs	-	-	160,157	201,699	461
Debt defeasance	-	-	2,000	9,000	-
Total expenditures	<u>3,529,062</u>	<u>3,475,191</u>	<u>3,548,089</u>	<u>3,641,574</u>	<u>3,231,366</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>8,398</u>	<u>(397,988)</u>	<u>203,077</u>	<u>(87,648)</u>	<u>160,671</u>
<b>Other Financing Sources (Uses)</b>					
General obligation bonds issued	-	-	3,205,000	4,675,000	-
Deposit with escrow agent	-	-	(3,099,559)	(4,673,000)	-
Premium on debt issued	-	-	58,140	208,358	-
Total other financing sources	<u>0</u>	<u>0</u>	<u>163,581</u>	<u>210,358</u>	<u>0</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>8,398</u>	<u>(397,988)</u>	<u>366,658</u>	<u>122,710</u>	<u>160,671</u>
<b>Fund Balance, Beginning of Year</b>	<u>3,471,912</u>	<u>3,869,900</u>	<u>3,503,242</u>	<u>3,380,532</u>	<u>3,219,861</u>
<b>Fund Balance, End of Year</b>	<u>\$ 3,480,310</u>	<u>\$ 3,471,912</u>	<u>\$ 3,869,900</u>	<u>\$ 3,503,242</u>	<u>\$ 3,380,532</u>

**Percent of Fund Total Revenues**

<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
92.2 %	97.7 %	98.4 %	96.8 %	95.6 %
1.4	1.4	1.0	0.8	1.2
<u>6.4</u>	<u>0.9</u>	<u>0.6</u>	<u>2.4</u>	<u>3.2</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.4	0.4	0.4	0.3	0.5
2.3	2.7	2.5	2.3	2.3
0.5	0.3	0.2	0.7	0.1
43.1	47.3	38.2	38.8	39.2
53.5	62.2	48.9	54.5	53.2
-	-	4.3	5.7	0.0
<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.2</u>	<u>-</u>
<u>99.8</u>	<u>112.9</u>	<u>94.6</u>	<u>102.5</u>	<u>95.3</u>
<u><u>0.2 %</u></u>	<u><u>(12.9) %</u></u>	<u><u>5.4 %</u></u>	<u><u>(2.5) %</u></u>	<u><u>4.7 %</u></u>

**Harris County Municipal Utility District No. 278**  
**Board Members, Key Personnel and Consultants**  
**Year Ended August 31, 2023**

Complete District mailing address: Harris County Municipal Utility District No. 278 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027	
District business telephone number 713.860.6400	
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	<u>May 18, 2022</u>
Limit on fees of office that a director may receive during a fiscal year:	<u>\$ 7,200</u>

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Shantai Magee	Elected 05/22- 05/26	\$ 7,200	\$ 14,991	President
Tommie Ruth Allen	Elected 11/20-** 05/24	4,784	3,241	Vice President
Gwendolyn Thornburg	Elected 05/22- 05/26	7,200	7,888	Secretary
B. Eugene Newsom	Elected 05/22- 05/26	7,200	20,174	Assistant Vice President
Nancy David	Elected 11/20-** 06/23	900	195	Resigned

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

\*\*May 2020 director election was deferred until November 2020.

**Harris County Municipal Utility District No. 278**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended August 31, 2023**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
Allen Boone Humphries Robinson LLP	01/01/17	\$ 205,044	General Counsel
Assessments of the Southwest, Inc.	01/01/86	54,127	Tax Assessor/ Collector
BGE, Inc.	03/08/12	230,590	Engineer
FORVIS, LLP	08/31/93	28,800	Auditor
Harris Central Appraisal District	Legislative Action	32,004	Appraiser
Municipal Accounts & Consulting, L.P.	04/10/03	110,029	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	01/10/97	14,288	Delinquent Tax Attorney
Rathmann & Associates, L.P.	02/01/93	0	Financial Advisor
Si Environmental, LLC	05/10/12	1,160,595	Operator
<b>Investment Officers</b>			
Mark M. Burton and Ghia Lewis	07/08/04	N/A	Bookkeepers