

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 322
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
DECEMBER 31, 2018

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	9
NOTES TO THE FINANCIAL STATEMENTS	10-20
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND	21
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	22
SCHEDULE OF SERVICES AND RATES	23-24
EXPENDITURES FOR THE YEAR ENDED DECEMBER 31, 2018	25
ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS, ALL GOVERNMENTAL FUND TYPES	26
SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS	27
TAXES LEVIED AND RECEIVABLE	28-29
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS	30-31
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT	32
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND	33
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND	34
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	35-36

Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

March 27, 2019

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 322
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Harris County Municipal Utility District No. 322, as of and for the year ended December 31, 2018, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Municipal Utility District No. 322 as of December 31, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 21 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 22 to 36 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

North & Cousins, PLLC

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Municipal Utility District No. 322 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2018.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities, such as security services and garbage 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 and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

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

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

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

Fund Financial Statements

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

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

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

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

Financial Analysis of the District as a Whole

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

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

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

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

Summary of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current and other assets	\$ 5,081,434	\$ 4,880,455	\$ 200,979
Capital assets	1,127,492	1,030,366	97,126
Total assets	<u>6,208,926</u>	<u>5,910,821</u>	<u>298,105</u>
Long-term liabilities	4,988,647	5,872,134	(883,487)
Other liabilities	1,107,151	1,393,501	(286,350)
Total liabilities	<u>6,095,798</u>	<u>7,265,635</u>	<u>(1,169,837)</u>
Total deferred inflows of resources	<u>1,698,281</u>	<u>1,688,399</u>	<u>9,882</u>
Net position:			
Invested in capital assets, net of related debt	(4,744,641)	(5,938,316)	1,193,675
Restricted	368,961	617,779	(248,818)
Unrestricted	2,790,527	2,277,324	513,203
Total net position	<u>\$ (1,585,153)</u>	<u>\$ (3,043,213)</u>	<u>\$ 1,458,060</u>

Summary of Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 1,703,628	\$ 1,646,002	\$ 57,626
Charges for services	1,529,485	1,631,662	(102,177)
Other revenues	160,902	89,340	71,562
Total revenues	<u>3,394,015</u>	<u>3,367,004</u>	<u>27,011</u>
Expenses:			
Service operations	1,846,295	3,223,031	(1,376,736)
Debt service	89,660	133,290	(43,630)
Total expenses	<u>1,935,955</u>	<u>3,356,321</u>	<u>(1,420,366)</u>
Change in net position	1,458,060	10,683	1,447,377
Net position, beginning of year	<u>(3,043,213)</u>	<u>(3,053,896)</u>	<u>10,683</u>
Net position, end of year	<u>\$ (1,585,153)</u>	<u>\$ (3,043,213)</u>	<u>\$ 1,458,060</u>

Financial Analysis of the District’s Funds

The District’s combined fund balances as of the end of the fiscal year ended December 31, 2018, were \$3,160,705, an increase of \$259,044 from the prior year.

The General Fund balance increased by \$513,249, in accordance with the District’s financial plan.

The Debt Service Fund balance decreased by \$139,722, in accordance with the District’s financial plan.

The Capital Projects Fund balance decreased by \$114,483, due to the transfer of \$114,511 to the General Fund.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 21 of this report. The budgetary fund balance as of December 31, 2018, was expected to be \$2,235,618 and the actual end of year fund balance was \$2,786,443.

Capital Asset and Debt Administration

Capital Assets

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Water facilities	\$ 344,451	\$ 364,368	\$ (19,917)
Sewer facilities	783,041	665,998	117,043
Totals	<u>\$ 1,127,492</u>	<u>\$ 1,030,366</u>	<u>\$ 97,126</u>

Changes to capital assets during the fiscal year ended December 31, 2018, are summarized as follows:

Additions:		
Sanitary sewer improvements		\$ 156,618
Decreases:		
Depreciation		<u>(59,492)</u>
Net change to capital assets		<u>\$ 97,126</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended December 31, 2018, are summarized as follows:

Bonded debt payable, beginning of year	\$ 6,875,000
Bonds paid	<u>(1,030,000)</u>
Bonded debt payable, end of year	<u>\$ 5,845,000</u>

At December 31, 2018, the District had \$2,080,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of A by Standard & Poor's. The Series 2011 and 2014 bonds are insured by Assured Guaranty Municipal Corp. The Series 2013 bonds are not insured. The issue rating for the Series 2013 bonds is A by Standard & Poor's. Because of the insurance, the Series 2011 and 2014 bonds are rated AA by Standard & Poor's. The underlying rating was upgraded during the year ended December 31, 2018.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$14,420,000 for the 2018 tax year (approximately 4%) primarily due to the increase in the valuation of existing property in the District and the addition of taxable value to the tax base.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston subject to the Strategic Partnership Agreement mentioned below. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of April 9, 2007. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District by the City. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City, and the City provides only limited services (primarily police). Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The SPA provides that the City shall pay to the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

Water Supply Issues

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water) as required by regulations of the Subsidence District. The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA is in the process of designing and constructing and will operate a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the "NHCRWA System"). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

Harris County Municipal Utility District No. 358 (the "Master District") is subject to the NHCRWA's Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the Master District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the Master District to a future credit against pumpage fees due to the NHCRWA. The Master District has not elected this financing option. As a result, the Master District has elected to pay its share in the NHCRWA System costs over time through payment of levied pumpage fees to the NHCRWA. The Master District may be required by the NHCRWA to participate in the groundwater conversion project by converting to surface water some time after January 1, 2010. Noncompliance with the NHCRWA's Groundwater Reduction Plan or nonparticipation in the NHCRWA's surface water conversion project could result in the Master District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the Master District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the Master District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. At December 31, 2018, the pumpage fee was equal to \$3.40 per 1,000 gallons pumped, and is expected to increase in the future. At December 31, 2018, the Authority's surface water usage fee was equal to \$3.85 per 1,000 gallons, and is expected to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has sold four issues of bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 997,689	\$ 924,680	\$	\$ 1,922,369	\$	\$ 1,922,369
Certificates of deposit, at cost, Note 7	589,072	240,000		829,072		829,072
Temporary investments, at cost, Note 7	1,210,192	127,458		1,337,650		1,337,650
Receivables:						
Property taxes	288,535	474,585		763,120		763,120
Accrued penalty and interest on property taxes				0	7,938	7,938
Service accounts	89,586			89,586		89,586
Accrued interest	3,567	1,711		5,278		5,278
Sales and Use Taxes, Note 12	19,500			19,500		19,500
Maintenance taxes collected not yet transferred from other fund	325,888			325,888	(325,888)	0
Groundwater pumpage fee reserve at Master District, Note 9	80,000			80,000		80,000
Groundwater bank certificates, at cost, Note 11	26,921			26,921		26,921
Capital assets, net of accumulated depreciation, Note 4:						
Depreciable capital assets				0	1,127,492	1,127,492
Total assets	<u>\$3,630,950</u>	<u>\$1,768,434</u>	<u>\$ 0</u>	<u>\$ 5,399,384</u>	<u>809,542</u>	<u>6,208,926</u>
LIABILITIES						
Accounts payable	\$ 93,681	\$ 4,868	\$	\$ 98,549		98,549
Accrued interest payable				0	23,721	23,721
Customer deposits	101,395			101,395		101,395
Maintenance taxes collected not yet transferred to other fund		325,888		325,888	(325,888)	0
Long-term liabilities, Note 5:						
Due within one year				0	883,486	883,486
Due in more than one year				0	4,988,647	4,988,647
Total liabilities	<u>195,076</u>	<u>330,756</u>	<u>0</u>	<u>525,832</u>	<u>5,569,966</u>	<u>6,095,798</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>649,431</u>	<u>1,063,416</u>	<u>0</u>	<u>1,712,847</u>	<u>(14,566)</u>	<u>1,698,281</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Nonspendable:						
Groundwater bank certificates, Note 11	26,921			26,921	(26,921)	0
Surface water fee reserve at Master District, Note 9	80,000			80,000	(80,000)	0
Assigned to:						
Debt service		374,262		374,262	(374,262)	0
Unassigned	<u>2,679,522</u>			<u>2,679,522</u>	<u>(2,679,522)</u>	<u>0</u>
Total fund balances	<u>2,786,443</u>	<u>374,262</u>	<u>0</u>	<u>3,160,705</u>	<u>(3,160,705)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$3,630,950</u>	<u>\$1,768,434</u>	<u>\$ 0</u>	<u>\$ 5,399,384</u>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(4,744,641)	(4,744,641)
Restricted for debt service					368,961	368,961
Unrestricted					<u>2,790,527</u>	<u>2,790,527</u>
Total net position					<u>\$ (1,585,153)</u>	<u>\$ (1,585,153)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

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

FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 617,813	\$ 1,073,946	\$	\$ 1,691,759	\$ (1,118)	\$ 1,690,641
Water service	332,682			332,682		332,682
Sewer service	529,610			529,610		529,610
Surface water fees, Note 10	596,628			596,628		596,628
Penalty, interest and other	28,058	12,844		40,902	143	41,045
Tap connection and inspection fees	42,507			42,507		42,507
Sales and Use Taxes, Note 12	125,799			125,799		125,799
Interest on deposits and investments	27,250	7,825	28	35,103		35,103
Total revenues	<u>2,300,347</u>	<u>1,094,615</u>	<u>28</u>	<u>3,394,990</u>	<u>(975)</u>	<u>3,394,015</u>
EXPENDITURES / EXPENSES						
Service operations:						
Purchased services, Note 9	423,544			423,544		423,544
Professional fees	67,686	3,696		71,382		71,382
Contracted services	66,132	29,799		95,931		95,931
Groundwater pumpage fees, Note 10	607,169			607,169		607,169
Repairs, maintenance and other operating expenditures	150,591			150,591		150,591
Security service	83,694			83,694		83,694
Garbage disposal	275,138			275,138		275,138
Administrative expenditures	56,877	8,317		65,194		65,194
Depreciation				0	59,492	59,492
Capital outlay / non-capital outlay	170,778			170,778	(156,618)	14,160
Debt service:						
Principal retirement		1,030,000		1,030,000	(1,030,000)	0
Interest and fees		162,525		162,525	(72,865)	89,660
Total expenditures / expenses	<u>1,901,609</u>	<u>1,234,337</u>	<u>0</u>	<u>3,135,946</u>	<u>(1,199,991)</u>	<u>1,935,955</u>
Excess (deficiency) of revenues over expenditures	<u>398,738</u>	<u>(139,722)</u>	<u>28</u>	<u>259,044</u>	<u>1,199,016</u>	<u>1,458,060</u>
OTHER FINANCING SOURCES (USES)						
Reimbursement (to) from other fund, Note 7	114,511	0	(114,511)	0	0	0
Total other financing sources (uses)	<u>114,511</u>	<u>0</u>	<u>(114,511)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances / net position	513,249	(139,722)	(114,483)	259,044	1,199,016	1,458,060
Beginning of year	<u>2,273,194</u>	<u>513,984</u>	<u>114,483</u>	<u>2,901,661</u>	<u>(5,944,874)</u>	<u>(3,043,213)</u>
End of year	<u>\$ 2,786,443</u>	<u>\$ 374,262</u>	<u>\$ 0</u>	<u>\$ 3,160,705</u>	<u>\$ (4,745,858)</u>	<u>\$ (1,585,153)</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322NOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 2018

NOTE 1: REPORTING ENTITY

Harris County Municipal Utility District No. 322 (the "District") was created by an order of the Texas Water Commission (now the Texas Commission on Environmental Quality), effective June 10, 1987, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on June 17, 1987, and the first bonds were sold on December 7, 1989. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

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

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's general purpose financial statements.

The District does not own water production or wastewater treatment facilities. Pursuant to the agreement described in Note 9, the District has contracted with Harris County Municipal Utility District no. 358 (the "Master District") for the purchase of water and the treatment of wastewater.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Basic Financial Statements

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

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

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

Interfund Activity

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

Receivables

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

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

Capital Assets

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

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

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

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

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 3,160,705
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		1,127,492
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (5,845,000)	
Deferred charge on refunding (to be amortized as interest expense)	12,923	
Net issuance premium (to be amortized as interest expense)	<u>(40,056)</u>	(5,872,133)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	7,938	
Uncollected property taxes	<u>14,566</u>	22,504
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(23,721)</u>
Net position, end of year		<u>\$ (1,585,153)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Total net change in fund balances		\$ 259,044
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 156,618	
Depreciation	<u>(59,492)</u>	97,126
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Principal reduction		1,030,000
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(9,403)	
Issuance discount, net of premium	<u>75,952</u>	66,549
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	143	
Uncollected property taxes	<u>(1,118)</u>	(975)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>6,316</u>
Change in net position		<u>\$ 1,458,060</u>

NOTE 4: CAPITAL ASSETS

At December 31, 2018, "Invested in capital assets, net of related debt" was \$(4,744,641). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. In addition, the District has paid \$11,889,050 for 1,667 connection charges to Harris County Municipal Utility District No. 358 for the use of that district's capital assets (see Note 9). Accordingly, these assets are not recorded in the financial statements of the District. Furthermore, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 0	\$	\$	\$ 0
Total capital assets not being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Depreciable capital assets:				
LED information sign	8,946			8,946
Water system	896,362			896,362
Sewer system	<u>1,411,506</u>	<u>156,618</u>		<u>1,568,124</u>
Total depreciable capital assets	<u>2,316,814</u>	<u>156,618</u>	<u>0</u>	<u>2,473,432</u>
Less accumulated depreciation for:				
LED information sign	(8,946)			(8,946)
Water system	(531,994)	(19,917)		(551,911)
Sewer system	<u>(745,508)</u>	<u>(39,575)</u>		<u>(785,083)</u>
Total accumulated depreciation	<u>(1,286,448)</u>	<u>(59,492)</u>	<u>0</u>	<u>(1,345,940)</u>
Total depreciable capital assets, net	<u>1,030,366</u>	<u>97,126</u>	<u>0</u>	<u>1,127,492</u>
Total capital assets, net	<u>\$ 1,030,366</u>	<u>\$ 97,126</u>	<u>\$ 0</u>	<u>\$ 1,127,492</u>
Changes to capital assets:				
Capital outlay		\$ 156,618	\$	
Less depreciation expense for the fiscal year		<u>(59,492)</u>		
Net increases / decreases to capital assets		<u>\$ 97,126</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 6,875,000	\$	\$ 1,030,000	\$ 5,845,000	\$ 880,000
Less deferred amounts:					
For issuance premiums (discounts)	116,008		75,952	40,056	10,483
For refunding charges	<u>(22,326)</u>		<u>(9,403)</u>	<u>(12,923)</u>	<u>(6,997)</u>
Total bonds payable	<u>6,968,682</u>	<u>0</u>	<u>1,096,549</u>	<u>5,872,133</u>	<u>883,486</u>
Total long-term liabilities	<u>\$ 6,968,682</u>	<u>\$ 0</u>	<u>\$ 1,096,549</u>	<u>\$ 5,872,133</u>	<u>\$ 883,486</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 880,000	\$ 133,525	\$ 1,013,525
2020	910,000	113,600	1,023,600
2021	935,000	91,038	1,026,038
2022	775,000	70,881	845,881
2023	775,000	52,281	827,281
2024 - 2025	<u>1,570,000</u>	<u>43,062</u>	<u>1,613,062</u>
	<u>\$ 5,845,000</u>	<u>\$ 504,387</u>	<u>\$ 6,349,387</u>

Bonds voted	\$ 19,500,000
Bonds approved for sale and sold	17,420,000
Bonds voted and not issued	2,080,000
Refunding bonds voted	One and one-half times the amount of unlimited tax bonds previously issued

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

The bond issues payable at December 31, 2018, were as follows:

	<u>Refunding Series 2013</u>	<u>Series 2014</u>
Amounts outstanding, December 31, 2018	\$2,425,000	\$3,420,000
Interest rates	2.00% to 2.50%	2.00% to 2.75%
Maturity dates, serially beginning/ending	May 1, 2019/2021	May 1, 2019/2025
Interest payment dates	May 1/November 1	May 1/November 1
Callable dates	May 1, 2019*	May 1, 2023*

*Or any date thereafter at the option of the District, in whole or in part, at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption.

Developer Construction Commitments and Liabilities

At December 31, 2018, there were no developer construction commitments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6: PROPERTY TAXES

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

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

At an election held on June 11, 1987, the voters within the District authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On October 24, 2018, the District levied the following ad valorem taxes for the 2018 tax year and the 2019 fiscal year on the adjusted taxable valuation of \$339,655,559.

	Rate	Amount
Debt service	\$ 0.3100	\$ 1,052,934
Maintenance	0.1900	645,347
	\$ 0.5000	\$ 1,698,281

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

2018 tax year total property tax levy	\$ 1,698,281
2018 tax year total property tax levy deferred to 2019 fiscal year	(1,698,281)
2017 tax year total property tax levy deferred to 2018 fiscal year	1,688,400
Appraisal district adjustments to prior year taxes	2,241
Statement of Activities property tax revenues	\$ 1,690,641

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$2,751,441 and the bank balance was \$2,770,471. Of the bank balance, \$1,962,152 was covered by federal insurance and \$292,531 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta, and \$515,788 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

At the balance sheet date the carrying value and market value of the investments in TexSTAR was \$665,419 and the carrying value and market value of the investments in TexPool was \$672,231.

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

Debt Service Fund

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

Cash	\$ 924,680
Certificates of deposit	240,000
Temporary investments	<u>127,485</u>
	<u>\$ 1,292,165</u>

During the fiscal year ended December 31, 2018, the District reimbursed the General Fund \$114,511 from the Capital Projects Fund in accordance with the rules of the Texas Commission on Environmental Quality.

NOTE 8: RISK MANAGEMENT

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

At December 31, 2018, the District had general liability coverage of \$5,000,000 and \$10,000,000 general aggregate, pollution liability coverage of \$2,000,000, automobile liability coverage of \$2,000,000, consultant's crime coverage of \$50,000, a tax assessor-collector bond of \$25,000 and statutory worker's compensation coverage with the Texas Municipal League Intergovernmental Risk Pool (the "Pool"). The Pool is a public entity risk pool currently operating as a common risk management and insurance program for various Texas public entities. The District pays annual premiums for its general insurance coverage. The Pool purchases reinsurance for protection against catastrophic losses that exceed the Pool's self-insurance retention. This reinsurance is purchased from companies rated A- or higher by A. M. Best Company. The District did not have physical damage coverage; however, the District has only underground facilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: FINANCING AND OPERATION OF REGIONAL FACILITIES

On March 1, 1992, the District entered into a regional contract with Harris County Municipal Utility District No. 354 and Harris County Municipal Utility District No. 358 ("No. 358") whereby No. 358 would act as the master district and provide or cause to be provided the regional water supply and delivery facilities and the regional waste collection, treatment, and disposal facilities necessary to serve the District and other adjacent districts. Under the terms of the regional contract, which is in effect through February 29, 2032, operating charges per single-family equivalent connection plus charges per 1,000 gallons of water usage were established and are billed to the participants on a monthly basis. During the year ended December 31, 2018, No. 358 billed the District \$423,544 for its share of operating costs at the joint facilities. At this date the District had contributed \$80,000 for a groundwater pumpage fee reserve at the joint facilities.

The terms of the regional contract provide for the establishment of an operating reserve consisting of at least three months' estimated operation and maintenance costs for the system. This reserve has been funded by excess monthly billings to the participants and is not credited to the accounts of the individual participants. No. 358 periodically bills additional or refunds surplus operating reserves to the participants.

Under the contract, No. 358 may charge a connection fee to pay for the costs of constructing regional facilities. Through December 31, 2018, the District has been credited with 1,667 water and sewer connections at a value of \$11,889,050. No. 358 is authorized, under certain conditions, to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities as needed to serve all districts in the service area. Once bonds are issued, each participating district would contribute to the debt service requirements of the bonds.

NOTE 10: REGIONAL WATER AUTHORITY FEES

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2000. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, at December 31, 2018, the Authority had established a pumpage fee of \$3.40 per 1,000 gallons of water pumped from each regulated well and is expected to increase in the future. The District's share of the pumpage fees payable to the Authority by No. 358 for the fiscal year ended December 31, 2018, was \$607,169. The District billed its customers \$596,628 during the fiscal year to pay for the fees charged by the Authority.

NOTE 11: GROUNDWATER BANK CERTIFICATES

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the "HGSD"). These certificates expire in 20 years and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the HGSD. Certificates can also be used in lieu of a disincentive fee assessed by the District for ground water pumpage in excess of the District's permit as amended. At December 31, 2018, the District had in its possession certificates totaling 69,048 thousand gallons of water. The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$26,921 at December 31, 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12: STRATEGIC PARTNERSHIP AGREEMENT

Effective April 9, 2007, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$125,799 from the City for the fiscal year ended December 31, 2018, of which \$19,500 was receivable at that date.

The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 606,353	\$ 606,353	\$ 617,813	\$ 11,460
Water and sewer service	890,000	890,000	862,292	(27,708)
Surface water fees	680,000	680,000	596,628	(83,372)
Penalty and other	28,850	28,850	28,058	(792)
Tap connection and inspection fees	0	0	42,507	42,507
Sales and Use Taxes	70,000	70,000	125,799	55,799
Interest on deposits and investments	10,000	10,000	27,250	17,250
TOTAL REVENUES	<u>2,285,203</u>	<u>2,285,203</u>	<u>2,300,347</u>	<u>15,144</u>
EXPENDITURES				
Service operations:				
Purchased services	399,640	399,640	423,544	23,904
Professional fees	97,100	97,100	67,686	(29,414)
Contracted services	70,000	70,000	66,132	(3,868)
Groundwater pumpage fees	748,000	748,000	607,169	(140,831)
Repairs, maintenance and other operating expenditures	135,000	135,000	150,591	15,591
Security service	74,027	74,027	83,694	9,667
Garbage disposal	267,624	267,624	275,138	7,514
Administrative expenditures	119,088	119,088	56,877	(62,211)
Capital outlay	412,300	412,300	170,778	(241,522)
TOTAL EXPENDITURES	<u>2,322,779</u>	<u>2,322,779</u>	<u>1,901,609</u>	<u>(421,170)</u>
EXCESS REVENUES (EXPENDITURES)	(37,576)	(37,576)	398,738	436,314
OTHER FINANCING SOURCES (USES)				
Reimbursement from other fund	<u>0</u>	<u>0</u>	<u>114,511</u>	<u>114,511</u>
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>0</u>	<u>0</u>	<u>114,511</u>	<u>114,511</u>
EXCESS SOURCES (USES)	(37,576)	(37,576)	513,249	550,825
FUND BALANCE, BEGINNING OF YEAR	<u>2,273,194</u>	<u>2,273,194</u>	<u>2,273,194</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,235,618</u>	<u>\$ 2,235,618</u>	<u>\$ 2,786,443</u>	<u>\$ 550,825</u>

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

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
DECEMBER 31, 2018

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

SCHEDULE OF SERVICES AND RATES

DECEMBER 31, 2018

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$33.50	2,000	N	\$1.85	2,001 to 10,000
				2.25	10,001 to 20,000
				3.00	Over 20,000

WASTEWATER: Included in charges above.

SURCHARGE: \$3.40 per 1,000 gallons of water used – NHCRWA pumpage fee.

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$48.30 Wastewater: \$0.00 Surcharge: \$34.00

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

SCHEDULE OF SERVICES AND RATES (Continued)

DECEMBER 31, 2018

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	1,113	1,109	1.0	1,109
1"	30	30	2.5	75
1-1/2"	11	11	5.0	55
2"	48	48	8.0	384
3"	0	0	15.0	0
4"	1	1	25.0	25
6"	0	0	50.0	0
8"	1	1	80.0	80
10"	0	0	115.0	0
Total Water	<u>1,204</u>	<u>1,200</u>		<u>1,728</u>
Total Wastewater	<u>1,127</u>	<u>1,123</u>	1.0	<u>1,123</u>

*Single family equivalents

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

Gallons pumped into system (unaudited): 180,618 (The District receives water through an unmetered interconnect from Harris County MUD No. 358)

Gallons billed to customers (unaudited): 180,618

Water Accountability Ratio
(Gallons billed/ gallons pumped): 100%

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

Does the District have Debt Service standby fees? Yes No

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

EXPENDITURES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Purchased services	\$ 423,544	\$ 0	\$ 0	\$ 423,544
Professional fees:				
Auditing	10,950			10,950
Legal	40,107	3,696		43,803
Engineering	16,629			16,629
	<u>67,686</u>	<u>3,696</u>	<u>0</u>	<u>71,382</u>
Contracted services:				
Bookkeeping	16,546			16,546
Operations and billing	49,586			49,586
Tax assessor-collector		17,281		17,281
Central appraisal district		12,518		12,518
	<u>66,132</u>	<u>29,799</u>	<u>0</u>	<u>95,931</u>
Groundwater pumpage fees	<u>607,169</u>	<u>0</u>	<u>0</u>	<u>607,169</u>
Repairs, maintenance and other operating expenditures	<u>150,591</u>	<u>0</u>	<u>0</u>	<u>150,591</u>
Security service	<u>83,694</u>	<u>0</u>	<u>0</u>	<u>83,694</u>
Garbage disposal	<u>275,138</u>	<u>0</u>	<u>0</u>	<u>275,138</u>
Administrative expenditures:				
Director's fees	11,250			11,250
Office supplies and postage	23,081			23,081
Insurance	4,055			4,055
Permit fees	2,898			2,898
Other	15,593	8,317	0	23,910
	<u>56,877</u>	<u>8,317</u>	<u>0</u>	<u>65,194</u>
CAPITAL OUTLAY				
Authorized expenditures	156,618			156,618
Tap connection costs	14,160			14,160
	<u>170,778</u>	<u>0</u>	<u>0</u>	<u>170,778</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>1,030,000</u>	<u>0</u>	<u>1,030,000</u>
Interest and fees:				
Interest		161,275		161,275
Paying agent fees		1,250		1,250
	<u>0</u>	<u>162,525</u>	<u>0</u>	<u>162,525</u>
TOTAL EXPENDITURES	<u>\$ 1,901,609</u>	<u>\$ 1,234,337</u>	<u>\$ 0</u>	<u>\$ 3,135,946</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

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

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 1,645,564	\$ 960,669	\$ 28	\$ 2,606,261
Maintenance tax receipts		562,891		562,891
Transfer of maintenance taxes	614,402			614,402
Reimbursement from other fund	114,511			114,511
Overpayments from taxpayers		<u>6,469</u>		<u>6,469</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>2,374,477</u>	<u>1,530,029</u>	<u>28</u>	<u>3,904,534</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	1,720,901	38,838		1,759,739
Capital outlay	170,778		7,775	178,553
Debt service		1,192,525		1,192,525
Decrease in customer deposits	14,750			14,750
Reimbursement to other fund			114,511	114,511
Transfer of maintenance taxes		614,402		614,402
Refund of taxpayer overpayments		<u>8,898</u>		<u>8,898</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>1,906,429</u>	<u>1,854,663</u>	<u>122,286</u>	<u>3,883,378</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	468,048	(324,634)	(122,258)	21,156
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>2,328,905</u>	<u>1,616,772</u>	<u>122,258</u>	<u>4,067,935</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 2,796,953</u>	<u>\$ 1,292,138</u>	<u>\$ 0</u>	<u>\$ 4,089,091</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

DECEMBER 31, 2018

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 1852000877	1.65%	3/04/19	\$ 101,863	\$ 1,391
No. 0123046961	2.31%	4/18/19	240,000	1,124
No. 3216000274	2.10%	4/18/19	<u>247,209</u>	<u>1,052</u>
			<u>\$ 589,072</u>	<u>\$ 3,567</u>
TexPool				
No. 2569400002	Market	On demand	\$ 607,259	\$ 0
TexSTAR				
No. 259642222000	Market	On demand	<u>602,933</u>	<u>0</u>
			<u>\$ 1,210,192</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 3300041011	2.15%	9/01/19	<u>\$ 240,000</u>	<u>\$ 1,711</u>
TexPool				
No. 2569400001	Market	On demand	\$ 64,972	\$ 0
TexSTAR				
No. 256943333000	Market	On demand	<u>62,486</u>	<u>0</u>
			<u>\$ 127,458</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 2,166,722</u>	<u>\$ 5,278</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 205,227	\$ 360,829
Additions and corrections to prior year taxes	<u>852</u>	<u>1,389</u>
Adjusted receivable, beginning of year	206,079	362,218
2018 ADJUSTED TAX ROLL	<u>645,347</u>	<u>1,052,934</u>
Total to be accounted for	851,426	1,415,152
Tax collections: Current tax year	(360,896)	(588,830)
Prior tax years	<u>(201,995)</u>	<u>(351,737)</u>
RECEIVABLE, END OF YEAR	<u>\$ 288,535</u>	<u>\$ 474,585</u>
RECEIVABLE, BY TAX YEAR		
2008 and prior	\$ 10	\$ 55
2009	10	44
2010	9	40
2011	81	342
2012	154	714
2013	445	1,853
2014	421	1,522
2015	594	1,521
2016	662	1,440
2017	1,698	2,950
2018	<u>284,451</u>	<u>464,104</u>
	<u>\$ 288,535</u>	<u>\$ 474,585</u>

Fiscal year 2018 General Fund property tax revenue of \$617,813 under the modified accrual basis of accounting is comprised of prior tax year collections of \$201,995 during fiscal year 2018 and 2017 tax year collections of \$415,818 during fiscal year 2017.

Fiscal year 2018 Debt Service Fund property tax revenue of \$1,073,946 under the modified accrual basis of accounting is comprised of prior tax year collections of \$351,737 during fiscal year 2018 and 2017 tax year collections of \$722,209 during fiscal year 2017.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2018

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 63,261,048	\$ 59,976,582	\$ 57,590,983	\$ 54,521,658
Improvements	283,694,200	272,961,238	260,195,418	238,607,766
Personal property	7,806,915	7,759,430	7,765,195	5,624,594
Less exemptions	<u>(15,106,604)</u>	<u>(15,458,780)</u>	<u>(23,140,799)</u>	<u>(27,347,681)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 339,655,559</u>	 <u>\$ 325,238,470</u>	 <u>\$ 302,410,797</u>	 <u>\$ 271,406,337</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.31000	\$ 0.33000	\$ 0.37000	\$ 0.41000
Maintenance tax rates*	<u>0.19000</u>	<u>0.19000</u>	<u>0.17000</u>	<u>0.16000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.50000</u>	 <u>\$ 0.52000</u>	 <u>\$ 0.54000</u>	 <u>\$ 0.57000</u>
 TAX ROLLS	 <u>\$ 1,698,281</u>	 <u>\$ 1,691,240</u>	 <u>\$ 1,633,018</u>	 <u>\$ 1,547,016</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>55.9%**</u>	 <u>99.7 %</u>	 <u>99.9 %</u>	 <u>99.9 %</u>

*Maximum tax rate approved by voters on June 11, 1987: \$1.00

**The District's taxes are usually levied in the fall and are not delinquent until after the following January 31.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
DECEMBER 31, 2018

<u>Due During Fiscal Years Ending December 31</u>	<u>Series 2013</u>		
	<u>Principal Due May 1</u>	<u>Interest Due May 1, November 1</u>	<u>Total</u>
2019	\$ 780,000	\$ 48,925	\$ 828,925
2020	810,000	31,000	841,000
2021	<u>835,000</u>	<u>10,438</u>	<u>845,438</u>
TOTALS	<u>\$ 2,425,000</u>	<u>\$ 90,363</u>	<u>\$ 2,515,363</u>

<u>Due During Fiscal Years Ending December 31</u>	<u>Series 2014</u>		
	<u>Principal Due May 1</u>	<u>Interest Due May 1, November 1</u>	<u>Total</u>
2019	\$ 100,000	\$ 84,600	\$ 184,600
2020	100,000	82,600	182,600
2021	100,000	80,600	180,600
2022	775,000	70,881	845,881
2023	775,000	52,281	827,281
2024	775,000	32,131	807,131
2025	<u>795,000</u>	<u>10,931</u>	<u>805,931</u>
TOTALS	<u>\$ 3,420,000</u>	<u>\$ 414,024</u>	<u>\$ 3,834,024</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

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

DECEMBER 31, 2018

<u>Due During Fiscal Years Ending December 31</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2019	\$ 880,000	\$ 133,525	\$ 1,013,525
2020	910,000	113,600	1,023,600
2021	935,000	91,038	1,026,038
2022	775,000	70,881	845,881
2023	775,000	52,281	827,281
2024	775,000	32,131	807,131
2025	795,000	10,931	805,931
TOTALS	\$ 5,845,000	\$ 504,387	\$ 6,349,387

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Totals</u>
Bond Series:	2011	2013	2014	
Interest Rate:	Not Applicable	2.00% to 2.50%	2.00% to 2.75%	
Dates Interest Payable:	Not Applicable	May 1/ November 1	May 1/ November 1	
Maturity Dates:	Not Applicable	May 1, 2018/2021	May 1, 2019/2025	
Bonds Outstanding at Beginning of Current Year	\$ 865,000	\$ 2,590,000	\$ 3,420,000	\$ 6,875,000
Less Retirements	<u>(865,000)</u>	<u>(165,000)</u>	<u>0</u>	<u>(1,030,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 0</u>	<u>\$ 2,425,000</u>	<u>\$ 3,420,000</u>	<u>\$ 5,845,000</u>
Current Year Interest Paid	<u>\$ 17,300</u>	<u>\$ 58,375</u>	<u>\$ 85,600</u>	<u>\$ 161,275</u>

Bond Descriptions and Original Amount of Issue

- (1) Harris County Municipal Utility District No. 322 Unlimited Tax Refunding Bonds, Series 2011 (\$3,560,000)
(2) Harris County Municipal Utility District No. 322 Unlimited Tax Refunding Bonds, Series 2013 (\$2,925,000)
(3) Harris County Municipal Utility District No. 322 Unlimited Tax Bonds, Series 2014 (\$3,420,000)

Paying Agent/Registrar

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

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 19,500,000	\$ 0	One and one-half times the amount of unlimited tax bonds previously issued
Amount Issued:	17,420,000		
Remaining to be Issued:	2,080,000		

Net debt service fund deposits and investments balances as of December 31, 2018: \$374,262
Average annual debt service payment for remaining term of all debt: 907,056

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED DECEMBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
REVENUES										
Property taxes	\$ 617,813	\$ 514,260	\$ 432,238	\$ 293,143	\$ 242,020	26.9 %	23.1 %	21.8 %	17.6 %	14.9 %
Water service	332,682	356,196	320,926	311,497	313,072	14.5	16.0	16.2	18.7	19.3
Sewer service	529,610	560,121	577,148	566,006	505,585	23.0	25.1	29.2	34.1	31.2
Surface water fees	596,628	536,771	419,132	342,157	337,967	25.9	24.1	21.2	20.5	20.9
Penalty and other	28,058	29,234	30,358	34,155	36,575	1.2	1.3	1.5	2.0	2.3
Tap connection and inspection fees	42,507	149,340	130,900	62,265	142,075	1.8	6.7	6.6	3.7	8.8
Sales and Use Taxes	125,799	73,875	65,626	53,873	39,332	5.5	3.3	3.3	3.2	2.4
Interest on deposits and investments	27,250	10,029	4,920	3,606	2,842	1.2	0.4	0.2	0.2	0.2
TOTAL REVENUES	2,300,347	2,229,826	1,981,248	1,666,702	1,619,468	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased services	423,544	373,714	366,821	280,243	276,508	18.4	16.7	18.5	16.8	17.1
Professional fees	67,686	68,600	78,509	75,023	68,901	2.9	3.1	4.0	4.5	4.3
Contracted services	66,132	71,590	76,238	66,131	65,710	2.9	3.2	3.8	4.0	4.1
Groundwater pumpage fees	607,169	563,915	438,584	370,331	352,930	26.4	25.2	22.2	22.3	21.7
Repairs, maintenance and other operating expenditures	150,591	157,370	180,153	97,313	106,120	6.6	7.1	9.1	5.8	6.6
Security service	83,694	72,111	71,678	72,169	34,606	3.6	3.2	3.6	4.3	2.1
Garbage disposal	275,138	326,735	336,456	339,095	326,075	12.0	14.7	17.0	20.4	20.1
Administrative expenditures	56,877	59,166	49,534	50,716	42,082	2.5	2.7	2.5	3.0	2.6
Capital outlay	170,778	191,422	79,813	13,695	242,063	7.4	8.6	4.0	0.8	14.9
TOTAL EXPENDITURES	1,901,609	1,884,623	1,677,786	1,364,716	1,514,995	82.7	84.5	84.7	81.9	93.5
EXCESS REVENUES (EXPENDITURES)	\$ 398,738	\$ 345,203	\$ 303,462	\$ 301,986	\$ 104,473	17.3 %	15.5 %	15.3 %	18.1 %	6.5 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,200	1,198	1,191	1,185	1,181					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,123	1,123	1,119	1,116	1,113					

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED DECEMBER 31

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES										
Property taxes	\$ 1,073,946	\$ 1,122,197	\$ 1,107,281	\$ 1,059,913	\$ 1,008,456	98.1 %	98.4 %	99.2 %	99.0 %	98.0 %
Penalty and interest	12,844	14,849	6,607	7,680	10,983	1.2	1.3	0.6	0.7	1.1
Accrued interest on bonds received at date of sale	0	0	0	0	4,993	0.0	0.0	0.0	0.0	0.5
Interest on deposits and investments	<u>7,825</u>	<u>3,465</u>	<u>2,386</u>	<u>2,718</u>	<u>3,839</u>	<u>0.7</u>	<u>0.3</u>	<u>0.2</u>	<u>0.3</u>	<u>0.4</u>
TOTAL REVENUES	<u>1,094,615</u>	<u>1,140,511</u>	<u>1,116,274</u>	<u>1,070,311</u>	<u>1,028,271</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Professional fees	3,696	4,005	1,054	1,949	3,054	0.3	0.4	0.1	0.2	0.3
Contracted services	29,799	28,168	28,069	26,908	25,750	2.7	2.5	2.5	2.5	2.5
Other expenditures	8,317	7,020	3,118	8,128	7,356	0.8	0.6	0.3	0.8	0.7
Debt service:										
Principal retirement	1,030,000	980,000	950,000	860,000	825,000	94.2	85.8	85.0	80.3	80.2
Interest and fees	<u>162,525</u>	<u>200,375</u>	<u>232,775</u>	<u>259,328</u>	<u>246,723</u>	<u>14.8</u>	<u>17.6</u>	<u>20.9</u>	<u>24.2</u>	<u>24.0</u>
TOTAL EXPENDITURES	<u>1,234,337</u>	<u>1,219,568</u>	<u>1,215,016</u>	<u>1,156,313</u>	<u>1,107,883</u>	<u>112.8</u>	<u>106.9</u>	<u>108.8</u>	<u>108.0</u>	<u>107.7</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ (139,722)</u>	<u>\$ (79,057)</u>	<u>\$ (98,742)</u>	<u>\$ (86,002)</u>	<u>\$ (79,612)</u>	<u>(12.8) %</u>	<u>(6.9) %</u>	<u>(8.8) %</u>	<u>(8.0) %</u>	<u>(7.7) %</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSDECEMBER 31, 2018

Complete District Mailing Address: Harris County Municipal Utility District No. 322
c/o Norton Rose Fulbright US LLP
1301 McKinney Street, Suite 5100
Houston, Texas 77010

District Business Telephone No.: 713-651-5151

Submission date of the most recent District Registration Form: May 20, 2019

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

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Marc P. Newman c/o Norton Rose Fulbright US LLP 1301 McKinney Street, Suite 5100 Houston, Texas 77010	Elected 5/05/18- 5/07/22	\$ 3,600	\$ 984	President
David Howell c/o Norton Rose Fulbright US LLP 1301 McKinney Street, Suite 5100 Houston, Texas 77010	Elected 5/07/16- 5/02/20	2,250	830	Vice President
Johnny South c/o Norton Rose Fulbright US LLP 1301 McKinney Street, Suite 5100 Houston, Texas 77010	Elected 5/07/16- 5/02/20	2,850	2,061	Secretary
Alison McGahan c/o Norton Rose Fulbright US LLP 1301 McKinney Street, Suite 5100 Houston, Texas 77010	Elected 5/07/16- 5/02/20	2,550	1,380	Treasurer
Todd Griffin c/o Norton Rose Fulbright US LLP 1301 McKinney Street, Suite 5100 Houston, Texas 77010	Elected 5/05/18- 5/07/22	0	0	Director

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 322BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)DECEMBER 31, 2018CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Norton Rose Fulbright US LLP 1301 McKinney Street, Suite 5100 Houston, Texas 77010	6/11/87	\$ 40,107	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 N. Loop West, Suite 600 Houston, Texas 77008	3/22/89	3,696	Delinquent Tax Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	5/01/90	18,714	Bookkeeper
Mary Jarmon 3401 Louisiana, Suite 400 Houston, Texas 77002	5/28/03	0	Investment Officer
Inframark, LLC 2002 Grand Parkway North, Suite 100 Katy, Texas 77449	11/24/87	241,020	Operator
LJA Engineering and Surveying, Inc. 2929 Briarpark, Suite 500 Houston, Texas 77042	As needed	65,241	Engineer
Bob Leared 11111 Katy Freeway, Suite 725 Houston, Texas 77079	6/28/88	20,028	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	12,518	Central Appraisal District
Masterson Advisors, LLC 4400 Post Oak Parkway, Suite 2370 Houston, Texas 77027	5/23/18	0	Financial Advisor
Hilltop Securities, Inc. 700 Milam Street, Suite 500 Houston, Texas 77002	Replaced 5/23/18	0	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	9/22/99	10,950	Independent Auditor

See accompanying independent auditor's report.