

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**HARRIS COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**MARCH 31, 2018**



**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

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**MARCH 31, 2018**



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Faulkey Gully Municipal  
Utility District  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Faulkey Gully Municipal Utility District (the "District"), as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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





## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is 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. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

July 19, 2018



**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

Management's discussion and analysis of Faulkey Gully Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 2018. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**FUND FINANCIAL STATEMENTS**

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, sales tax revenues, operating costs and general expenditures. The Special Revenue Fund accounts for financial activities of the joint wastewater treatment facilities. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

**FUND FINANCIAL STATEMENTS (Continued)**

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE FINANCIAL STATEMENTS**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

**OTHER INFORMATION**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). Budgetary comparison schedules are included as RSI for the General Fund and the Special Revenue Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$20,271,667 as of March 31, 2018. A portion of the District's net position reflects its investment in capital assets (water, wastewater and drainage facilities as well as land, buildings and equipment, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	<u>Summary of Changes in the Statement of Net Position</u>		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 16,484,010	\$ 16,089,885	\$ 394,125
Capital Assets (Net of Accumulated Depreciation)	<u>12,298,946</u>	<u>12,333,592</u>	<u>(34,646)</u>
Total Assets	<u>\$ 28,782,956</u>	<u>\$ 28,423,477</u>	<u>\$ 359,479</u>
Deferred Outflows of Resources	<u>\$ 199,668</u>	<u>\$ 210,186</u>	<u>\$ (10,518)</u>
Bonds Payable	\$ 8,109,427	\$ 9,117,030	\$ 1,007,603
Other Liabilities	<u>601,530</u>	<u>753,630</u>	<u>152,100</u>
Total Liabilities	<u>\$ 8,710,957</u>	<u>\$ 9,870,660</u>	<u>\$ 1,159,703</u>
Net Position:			
Net Investment in Capital Assets	\$ 4,389,187	\$ 3,426,748	\$ 962,439
Restricted	199,674	245,377	(45,703)
Unrestricted	<u>15,682,806</u>	<u>15,090,878</u>	<u>591,928</u>
Total Net Position	<u>\$ 20,271,667</u>	<u>\$ 18,763,003</u>	<u>\$ 1,508,664</u>

The following table provides a summary of the District's operations for the years ended March 31, 2018, and March 31, 2017.

	<u>Summary of Changes in the Statement of Activities</u>		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,327,717	\$ 2,269,183	\$ 58,534
Charges for Services	2,422,238	2,082,263	339,975
Other Revenues	<u>712,235</u>	<u>690,762</u>	<u>21,473</u>
Total Revenues	<u>\$ 5,462,190</u>	<u>\$ 5,042,208</u>	<u>\$ 419,982</u>
Expenses for Services	<u>3,953,526</u>	<u>3,609,814</u>	<u>(343,712)</u>
Change in Net Position	\$ 1,508,664	\$ 1,432,394	\$ 76,270
Net Position, Beginning of Year	<u>18,763,003</u>	<u>17,330,609</u>	<u>1,432,394</u>
Net Position, End of Year	<u>\$ 20,271,667</u>	<u>\$ 18,763,003</u>	<u>\$ 1,508,664</u>

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of March 31, 2018, were \$8,588,662, an increase of \$466,661 from the prior year. The General Fund fund balance increased by \$514,474, primarily due to service, property tax and sales tax revenues exceeding the costs of operating and maintaining the District's facilities. The Debt Service Fund fund balance decreased by \$47,813, primarily due to the structure of the District's debt service requirements. The Special Revenue Fund is revenue neutral. Operating costs of \$629,384 were billed to the participants during the current fiscal year.

**BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the General Fund budget during the current fiscal year. Actual revenues were \$177,051 more than budgeted revenues primarily due to higher than anticipated property tax revenues, tap fees and other revenues. Actual expenditures were \$535,609 less than budgeted expenditures primarily due to lower than anticipated capital expenditures and purchased wastewater costs which were offset by higher repairs and maintenance costs and professional fees than anticipated. See page 33 for the budget to actual comparison.

**CAPITAL ASSETS**

Capital assets as of March 31, 2018, total \$12,298,946 (net of accumulated depreciation) and include land, buildings, and equipment as well as the water, wastewater, and drainage systems. Significant capital asset activity during the current fiscal year included the Water Plant No. 1 MCC and ATS replacements, 8-inch sanitary sewer across N. Eldridge, booster pumps at Water Plant No. 2, and sewer treatment plant large unit rehabilitation.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 233,736	\$ 233,736	\$
Construction in Progress	56,105	104,360	(48,255)
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Equipment	148,137	152,094	(3,957)
Water System	3,917,027	3,595,912	321,115
Wastewater System	7,069,251	7,343,376	(274,125)
Drainage System	874,690	904,114	(29,424)
Total Net Capital Assets	\$ 12,298,946	\$ 12,333,592	\$ (34,646)

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

**LONG-TERM DEBT ACTIVITY**

As of March 31, 2018, the District had total bond debt payable of \$8,060,000. The changes in the debt position of the District during the current fiscal year are summarized as follows:

Bond Debt Payable, April 1, 2017	\$ 9,065,000
Less: Bond Principal Paid	<u>1,005,000</u>
Bond Debt Payable, March 31, 2018	<u>\$ 8,060,000</u>

The District has an underlying rating of "A1" from Moody's Rating Services ("Moody's"). The Series 2012 Bonds were sold without an insured rating. The District's Series 2015 Bonds were sold with an insured rating of "AA" by virtue of bond insurance issued by Municipal Assurance Corp. ("MAC"). All ratings are as of March 31, 2018, and reflect changes, if any, through that date.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Faulkey Gully Municipal Utility District, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1100, Houston, TX 77046.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2018**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>ASSETS</b>		
Cash	\$ 1,564,638	\$ 348,915
Investments	6,880,373	
Receivables:		
Property Taxes	24,453	
Penalty and Interest on Delinquent Taxes		
Service Accounts	84,210	
Accrued Interest	20,380	
Sales Taxes	54,273	
Due from Other Funds	215,248	53,907
Water Authority Capital Contributions		
Chloramination Credit Receivable		
Prepaid Costs	15,851	
Due from Participant		13,925
Joint Facilities Operating Advance	102,271	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 8,961,697</b>	<b>\$ 416,747</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunded Bonds	\$ -0-	\$ -0-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 8,961,697</b>	<b>\$ 416,747</b>

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



<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 184,186	\$ 2,097,739	\$	\$ 2,097,739
3,280	6,883,653		6,883,653
32,331	56,784		56,784
		10,428	10,428
	84,210		84,210
	20,380		20,380
	54,273		54,273
60	269,215	(269,215)	
		6,619,749	6,619,749
		627,018	627,018
	15,851		15,851
	13,925		13,925
	102,271	(102,271)	
		233,736	233,736
		56,105	56,105
		<u>12,009,105</u>	<u>12,009,105</u>
<u>\$ 219,857</u>	<u>\$ 9,598,301</u>	<u>\$ 19,184,655</u>	<u>\$ 28,782,956</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 199,668</u>	<u>\$ 199,668</u>
<u><u>\$ 219,857</u></u>	<u><u>\$ 9,598,301</u></u>	<u><u>\$ 19,384,323</u></u>	<u><u>\$ 28,982,624</u></u>

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

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2018**

	General Fund	Special Revenue Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 269,353	\$ 51,657
Accrued Interest Payable		
Due to Participants		32,249
Due to Other Funds	53,967	215,248
Due to Taxpayers		
Security Deposits	202,338	
Participant Operating Advances		117,593
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<b>\$ 525,658</b>	<b>\$ 416,747</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 24,453	\$ - 0 -
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 15,851	\$
Operating Advance	102,271	
Restricted for Debt Service		
Assigned to 2019 Budget Deficit	2,664	
Unassigned	8,290,800	
<b>TOTAL FUND BALANCES</b>	<b>\$ 8,411,586</b>	<b>\$ - 0 -</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 8,961,697</b>	<b>\$ 416,747</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Debt Service Fund	Total	Adjustments	Statement of Net Position
\$ 1,860	\$ 322,870	\$	\$ 322,870
		20,161	20,161
	32,249		32,249
	269,215	(269,215)	
8,590	8,590		8,590
	202,338		202,338
	117,593	(102,271)	15,322
		1,035,000	1,035,000
		7,074,427	7,074,427
<u>\$ 10,450</u>	<u>\$ 952,855</u>	<u>\$ 7,758,102</u>	<u>\$ 8,710,957</u>
<u>\$ 32,331</u>	<u>\$ 56,784</u>	<u>\$ (56,784)</u>	<u>\$ - 0 -</u>
\$	\$ 15,851	\$ (15,851)	\$
	102,271	(102,271)	
177,076	177,076	(177,076)	
	2,664	(2,664)	
	<u>8,290,800</u>	<u>(8,290,800)</u>	
<u>\$ 177,076</u>	<u>\$ 8,588,662</u>	<u>\$ (8,588,662)</u>	<u>\$ - 0 -</u>
<u>\$ 219,857</u>	<u>\$ 9,598,301</u>		
		\$ 4,389,187	\$ 4,389,187
		199,674	199,674
		<u>15,682,806</u>	<u>15,682,806</u>
		<u>\$ 20,271,667</u>	<u>\$ 20,271,667</u>

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

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
MARCH 31, 2018**

Total Fund Balances - Governmental Funds	\$	8,588,662
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Long-term receivables are recorded in the Statement of Net Position.		7,246,767
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		12,298,946
--	--	------------

Deferred charges on refunding bonds are amortized over the life of the old debt or new debt, whichever is shorter.		199,668
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.		67,212
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (20,161)	
Bonds Payable	<u>(8,109,427)</u>	<u>(8,129,588)</u>

Total Net Position - Governmental Activities	\$	<u>20,271,667</u>
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The accompanying notes to the financial statements are an integral part of this report.

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**FAULKY GULLY MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	General Fund	Special Revenue Fund
<b>REVENUES</b>		
Property Taxes	\$ 1,041,728	\$
Water Service	598,785	
Wastewater Service	269,589	629,109
Water Authority Fees	1,341,474	
Penalty and Interest	11,518	
Tap Connection and Inspection Fees	75,215	
Water Authority Credits	618,098	
Sales Tax Revenues	221,631	
Miscellaneous Revenues	98,937	275
<b>TOTAL REVENUES</b>	<b>\$ 4,276,975</b>	<b>\$ 629,384</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Salaries (including Benefits)	\$ 34,150	\$ 11,488
Professional Fees	336,814	83,004
Contracted Services	253,303	56,583
Purchased Water Service	937,323	586
Purchased Wastewater Service	460,273	
Utilities	100,639	108,384
Water Authority Pumpage Fees	442,207	
Repairs and Maintenance	417,127	89,282
Depreciation		
Other	198,555	219,951
Capital Outlay	582,110	60,106
Debt Service:		
Bond Principal		
Bond Interest		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 3,762,501</b>	<b>\$ 629,384</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 514,474</b>	<b>\$ -0-</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - APRIL 1, 2017</b>	<b>7,897,112</b>	
<b>FUND BALANCES/NET POSITION - MARCH 31, 2018</b>	<b>\$ 8,411,586</b>	<b>\$ -0-</b>

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

Debt Service Fund	Total	Adjustments	Statement of Activities
\$ 1,287,611	\$ 2,329,339	\$ (1,622)	\$ 2,327,717
	598,785		598,785
	898,698	(520,379)	378,319
	1,341,474		1,341,474
16,011	27,529	916	28,445
	75,215		75,215
	618,098	(227,313)	390,785
	221,631		221,631
607	99,819		99,819
<u>\$ 1,304,229</u>	<u>\$ 6,210,588</u>	<u>\$ (748,398)</u>	<u>\$ 5,462,190</u>
\$ 10,345	\$ 45,638	\$ (268,791)	\$ 45,638
58,278	430,163		161,372
	368,164		368,164
	937,909		937,909
	460,273	(460,273)	
	209,023		209,023
	442,207		442,207
	506,409	20,777	527,186
		559,767	559,767
5,530	424,036		424,036
	642,216	(642,216)	
1,005,000	1,005,000	(1,005,000)	
272,889	272,889	5,335	278,224
<u>\$ 1,352,042</u>	<u>\$ 5,743,927</u>	<u>\$ (1,790,401)</u>	<u>\$ 3,953,526</u>
\$ (47,813)	\$ 466,661	\$ (466,661)	\$ 1,508,664
			1,508,664
224,889	8,122,001	10,641,002	18,763,003
<u>\$ 177,076</u>	<u>\$ 8,588,662</u>	<u>\$ 11,683,005</u>	<u>\$ 20,271,667</u>

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

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$	466,661
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(1,622)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		916
Governmental funds report repayment of capital contributions as revenues in the period received. However, in the Statement of Net Position, repayments reduce long-term receivables.		(227,313)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(559,767)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		561,333
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		1,005,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(5,335)
The District records a payable in governmental activities for accrued but unpaid liabilities which will not be paid with current financial resources.		<u>268,791</u>
Change in Net Position - Governmental Activities	\$	<u><u>1,508,664</u></u>

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



**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 1. CREATION OF DISTRICT**

Faulkey Gully Municipal Utility District of Harris County, (the “District”) was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality, effective March 21, 1973. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate, and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on April 13, 1973, and the first bonds were sold on February 28, 1978.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units. The District participates in a joint venture operation of a wastewater treatment plant. The District exercises oversight responsibility over the plant and accounts for the activity of the plant in its Special Revenue Fund. See Note 9 for additional disclosure.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, sales tax revenues, operating costs and general expenditures.

Special Revenue Fund To account for financial activities of the joint wastewater treatment facilities.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2018, the General Fund owed the Debt Service Fund \$60 for the over transfer of maintenance tax collections, the General Fund owed the Special Revenue Fund \$53,907 for the District's share of wastewater treatment plant operations, and the Special Revenue Fund owed the General Fund \$215,248 for construction advances related to the renovation of the large treatment plant.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets

Capital assets, which include property, plants, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements, and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost of \$10,000 or more, and a useful life of at least two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts unappropriated budgets for the General Fund and Special Revenue Fund. The budgets were not amended during the current fiscal year.

Pensions

The District has not established a pension plan. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds using are classified the following hierarchy:

*Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted*: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

*Committed*: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

*Assigned*: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. The District assigned \$2,664 of its General Fund fund balance to be used to cover the 2019 budgeted deficit.

*Unassigned*: all other spendable amounts in the General Fund.

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

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounting 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3. LONG-TERM DEBT**

	Series 2012 Refunding	Series 2015 Refunding
Amount Outstanding - March 31, 2018	\$2,165,000	\$5,895,000
Interest Rates	3.73%	2.00% - 3.25%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2033	March 1, 2019/2037
Interest Payment Dates	September 1/ March 1	September 1/ March 1
Callable Dates	March 1, 2019*	March 1, 2021*

\* Or any date thereafter, in whole or in part at a price of par plus accrued interest on the date fixed for redemption. The Series 2012 term bonds maturing on March 1, 2016 and March 1, 2033, are subject to mandatory redemption beginning on March 1, 2013 and March 1, 2017, respectively. The Series 2015 term bonds maturing on March 1, 2024, March 1, 2027, March 1, 2030, March 1, 2032, March 1, 2035 and March 1, 2037 are subject to mandatory redemption beginning on March 1, 2022, March 1, 2025, March 1, 2028, March 1, 2031, March 1, 2033 and March 1, 2036, respectively.

**FAULKLEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 3. LONG-TERM DEBT (Continued)**

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2018:

	April 1, 2017	Additions	Retirements	March 31, 2018
Bonds Payable	\$ 9,065,000	\$	\$ 1,005,000	\$ 8,060,000
Unamortized Discounts	(57,884)		(2,897)	(54,987)
Unamortized Premiums	109,914		5,500	104,414
Bonds Payable, Net	<u>\$ 9,117,030</u>	<u>\$ -0-</u>	<u>\$ 1,007,603</u>	<u>\$ 8,109,427</u>
			Amount Due Within One Year	\$ 1,035,000
			Amount Due After One Year	7,074,427
			Bonds Payable, Net	<u>\$ 8,109,427</u>

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

Fiscal Year	Principal	Interest	Total
2019	\$ 1,035,000	\$ 241,935	\$ 1,276,935
2020	335,000	219,246	554,246
2021	345,000	210,557	555,557
2022	350,000	201,580	551,580
2023	360,000	191,931	551,931
2024-2028	2,020,000	789,910	2,809,910
2029-2033	2,420,000	437,265	2,857,265
2034-2037	1,195,000	88,515	1,283,515
	<u>\$ 8,060,000</u>	<u>\$ 2,380,939</u>	<u>\$ 10,440,939</u>

The District has authorized but unissued bonds in the amount of \$17,150,000. 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, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

During the year ended March 31, 2018, the District levied its 2017 ad valorem debt service tax rate of \$0.21 per \$100 of assessed valuation, which resulted in a tax levy of \$1,291,146 on the adjusted taxable valuation of \$614,831,250. The bond resolutions require the District to 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. See Note 7 for the maintenance tax levy.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 3. LONG-TERM DEBT (Continued)**

The District's tax calendar is as follows:

Lien Date - January 1.

Billing Date - October 1 or as soon thereafter as practicable.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

**NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS**

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

The District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$4,827,739 and the bank balance was \$4,840,639. The District was not exposed to custodial credit risk at year-end.



**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2018**

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2018, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 1,564,638	\$ 2,730,000	\$ 4,294,638
SPECIAL REVENUE FUND	348,915		348,915
DEBT SERVICE FUND	184,186		184,186
TOTAL DEPOSITS	<u>\$ 2,097,739</u>	<u>\$ 2,730,000</u>	<u>\$ 4,827,739</u>

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District records its investments in certificates of deposit at amortized cost. The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

As of March 31, 2018, the District had the following investments and maturities:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities of Less Than 1 Year</u>
<u>GENERAL FUND</u>		
TexPool	\$ 4,150,373	\$ 4,150,373
Certificates of Deposit	2,730,000	2,730,000
<u>DEBT SERVICE FUND</u>		
TexPool	3,280	3,280
<b>TOTAL INVESTMENTS</b>	<u><u>\$ 6,883,653</u></u>	<u><u>\$ 6,883,653</u></u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2018, the District's investment in TexPool was rated AAAM by Standard and Poor's. The District manages credit risk by investing in certificates of deposit with balances below FDIC coverage or which have balances covered by pledged collateral.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value. The District manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

All cash and investments of the Special Revenue Fund are restricted for the payment of joint wastewater treatment plant operations. All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2018:

	April 1, 2017	Increases	Decreases	March 31, 2018
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 233,736	\$	\$	\$ 233,736
Construction in Progress	<u>104,360</u>	<u>525,121</u>	<u>573,376</u>	<u>56,105</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 338,096</u>	<u>\$ 525,121</u>	<u>\$ 573,376</u>	<u>\$ 289,841</u>
<b>Capital Assets Subject to Depreciation</b>				
Building and Equipment	\$ 182,470	\$	\$	\$ 182,470
Water System	6,995,258	502,270		7,497,528
Wastewater System	13,204,772	71,106		13,275,878
Drainage System	<u>1,324,071</u>			<u>1,324,071</u>
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 21,706,571</u>	<u>\$ 573,376</u>	<u>\$ - 0 -</u>	<u>\$ 22,279,947</u>
<b>Accumulated Depreciation</b>				
Building and Equipment	\$ 30,376	\$ 3,957	\$	\$ 34,333
Water System	3,399,346	181,155		3,580,501
Wastewater System	5,861,396	345,231		6,206,627
Drainage System	<u>419,957</u>	<u>29,424</u>		<u>449,381</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 9,711,075</u>	<u>\$ 559,767</u>	<u>\$ - 0 -</u>	<u>\$ 10,270,842</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 11,995,496</u>	<u>\$ 13,609</u>	<u>\$ - 0 -</u>	<u>\$ 12,009,105</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 12,333,592</u>	<u>\$ 538,730</u>	<u>\$ 573,376</u>	<u>\$ 12,298,946</u>

**NOTE 7. MAINTENANCE TAX**

On April 5, 1975, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District. On May 3, 2003, the voters of the District approved an increase in the maximum maintenance tax not to exceed \$0.50 per \$100 of assessed valuation of taxable property within the District. During the year ended March 31, 2018, the District levied its 2017 ad valorem maintenance tax rate of \$0.17 per \$100 of assessed valuation, which resulted in a tax levy of \$1,045,213 on the adjusted taxable valuation of \$614,831,250. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 8. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters. The District carries commercial insurance to provide property, general liability, automobile, boiler and machinery, pollution, directors and officers liability and workers compensation coverage. There has been no significant reduction in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 9. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE AGREEMENTS**

On April 11, 1978, the District entered into an agreement with Malcomson Road Utility District (“Malcomson Road”) for assignment of 150,000 gallons per day capacity (gpd) in the District’s then existing 400,000 gpd sewage treatment plant and for the sharing of construction and acquisition costs of the sewage treatment plant and related facilities. In addition, the agreement calls for Malcomson Road to share in the cost of operating the sewage treatment plant on a basis of plant capacity.

On August 30, 1984, the District entered into an agreement with two Developers within the District to expand the existing sewage treatment plant by 800,000 gpd capacity. The District agreed to fund 520,000 gpd of the constructed capacity, and the Developers the remaining 280,000 gpd. Subsequent to entering into the agreement, and following meetings with representatives of the City of Houston, an additional 100,000 gpd was included in the construction in anticipation of the original plant being downgraded to 300,000 gpd due to changes in the loading criteria of the plant.

In 1989, the District sold bonds to purchase one Developer’s capacity; however, the Commission required that funds be escrowed pending the District showing a need to own the capacity. During a prior fiscal year, the Commission approved the release of \$196,879 of escrowed funds for the District to purchase the facilities, subject to the District and the Developers amending the agreement to reallocate the plant expansion on the basis of 900,000 gpd.

This action was accomplished through an agreement titled “Second Addendum to Agreement for Expansion of Sewage Treatment Facilities.” On the basis of this agreement, constructed capacity of the expansion was reallocated to 585,000 gpd funded by the District and 315,000 gpd funded by the Developers; and the District was authorized to purchase 103,600 gpd of one developer’s capacity from escrowed funds. During a prior fiscal year, Malcomson Road funded \$49,684 to the District for their share of the upgrade capacity. The District has subsequently purchased all capacity from the respective Developers excluding that portion of the upgrade purchased by Malcomson Road.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2018**

**NOTE 9. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE AGREEMENTS (Continued)**

On September 19, 2002, the District and Malcomson Road entered into an agreement for expansion of the sewage treatment plant. This agreement calls for the District to administer the contracts and payment of invoices. The cost of the completed facility has been recorded as a part of the District’s wastewater system assets. The participants in the operations of the sewage treatment plant are:

	Gallons Per Day Capacity	Operations Cost Allocation
Faulkey Gully Municipal Utility District	1,235,000	86.97%
Malcomson Road Utility District	185,000	13.03%
	1,420,000	100.00%

The operation of the sewage treatment plant facility is recorded in the District’s financial statements under the heading “Special Revenue Fund.” Separate financial statements of the joint venture are not issued. Malcomson Road and the District have advanced funds to assist with the month-to-month sewer plant operations with the districts providing \$15,322 and \$102,271, respectively, for a total of \$117,593.

**NOTE 10. EMERGENCY WATER SUPPLY AGREEMENTS**

On August 10, 1982, and as amended on January 12, 1998, the District executed a contract with Harris County Municipal Utility District No. 18 (“MUD 18”) to provide emergency water supply services. Under the terms of the contract, the District shall bear the cost of the interconnect. The charge for service to either district shall be 1.25 times the rate at which water is supplied by MUD 18 to single family residential customers within its boundaries. The term of the contract is 40 years. On December 19, 2002, the District approved an amendment to the agreement to pass through the fees assessed by the North Harris County Regional Water Authority.

On June 4, 1998, the District executed an Emergency Water Supply Contract with Pitcairn Water Supply Corporation (the “Corporation”). In accordance with the agreement, the Corporation agreed to acquire and construct all facilities necessary to connect to the District’s water supply system. During an emergency, the District shall open the valve in the line connecting the two systems and supply water to the Corporation, but only after the Corporation provides notice of the emergency to the District’s operator. In order for the Corporation to draw water in other than an emergency, the Corporation must obtain prior written consent of the District. The District shall not be obligated to supply water in simultaneous emergencies.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 10. EMERGENCY WATER SUPPLY AGREEMENTS (Continued)**

The Corporation will be billed annually for water at the rate of \$2.00 per 1,000 gallons on the first 1 million gallons of water and \$2.50 per 1,000 gallons over 1 million gallons of water received. In addition, the Corporation agreed to fund all reasonable costs incurred by the District in implementing the interconnect during an emergency. The agreement is in force and effect from the date of its execution until January 1, 1999. The contract shall thereafter be automatically renewed each year but shall be subject to termination by either party by providing one year's written notice at any time.

**NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**

The District is located within the boundaries of the North Harris County Regional Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the "Act"), as passed by the 75<sup>th</sup> Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority has entered into a contract for purchase of surface water from the City of Houston, Texas, to assure that its participants comply with the Harris-Galveston Subsidence District ("HGSD") pumpage requirements, which mandate that districts within HGSD boundaries, including the District, to convert a percentage of its water use to surface water over a period of time.

The Authority currently charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. The pumpage fee charged at year-end was \$2.90 per 1,000 gallons of water pumped from each well. The Authority also charges a surface water fee, based on amount of received surface water. The surface water fee was \$3.35 per 1,000 gallons at year-end. During the current fiscal year, the District incurred costs of \$442,207 for pumpage fees and \$937,323 for purchased surface water.

Capital Contributions Receivable

The District has entered into capital contribution contracts with the Authority. The District receives capital contribution credits to be applied to the quarterly pumpage fees which the Authority assesses, applied to any water purchased by the District from the Authority, or to be paid to the District in cash. The Authority calculates the credits by amortizing the Capital Contribution over the life of the Authority's bonds.

On July 7, 2003, the District entered into a Capital Contribution Contract with the Authority and on October 2, 2003, approved the First Amendment to the Capital Contribution Contract. The District paid \$2,546,251 to the Authority for the District's share of the construction of the 2010 Surface Water Distribution and Transmission System. During the current fiscal year, the District received credits of \$185,563 including a return of principal of \$81,225. The 2003 capital contribution balance is \$1,981,809.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**  
(Continued)

Capital Contributions Receivable (Continued)

On July 21, 2005, the District sold bonds for the District's \$1,787,314 share of the surface water conversion project. During the current fiscal year, the District received credits of \$121,892 including a return of principal of \$50,538. The 2005 capital contribution balance is \$1,433,322.

On July 10, 2008, the District entered into a capital contribution contract with the Authority and on August 5, 2008, the District made the payment of \$3,530,656 to the Authority. The District received credits of \$260,019 including a return of principal of \$83,274. The 2008 capital contribution balance is \$3,204,618.

Future repayments of capital contributions are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 226,056	\$ 341,412	\$ 567,468
2020	237,627	329,841	567,468
2021	249,798	317,670	567,468
2022	262,605	304,863	567,468
2023	276,057	291,411	567,468
2024-2028	1,607,583	1,229,757	2,837,340
2029-2033	2,064,174	773,166	2,837,340
2034-2038	1,510,655	263,806	1,774,461
2039	185,194	9,818	195,012
	<u>\$ 6,619,749</u>	<u>\$ 3,861,744</u>	<u>\$ 10,481,493</u>

Chloramine Conversion Reimbursement

The Authority required the District to convert its water systems to chloramine disinfection for as long as it is connected to the Authority's system. The District has completed its chloramine conversion system. The District's reimbursable cost of this system was \$696,836. The Authority calculated the reimbursement at 6% interest over a 30-year period. The District began receiving chloramine conversion credits on the August 2011 Authority billing. Total credits earned in the current fiscal year were \$50,624. Of this amount, \$12,268 was a return of principal with the balance being applicable to interest. The following is a schedule of the remaining chloramine conversion credits to be received under the terms of the agreement.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**  
(Continued)

Chloramine Conversion Reimbursement (Continued)

Fiscal Year	Principal	Interest	Total
2019	\$ 13,003	\$ 37,621	\$ 50,624
2020	13,783	36,841	50,624
2021	14,610	36,014	50,624
2022	15,487	35,137	50,624
2023	16,416	34,208	50,624
2024-2028	98,093	155,029	253,122
2029-2033	131,270	121,852	253,122
2034-2038	175,669	77,453	253,122
2039-2042	148,687	20,062	168,749
	<u>\$ 627,018</u>	<u>\$ 554,217</u>	<u>\$ 1,181,235</u>

**NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT**

Effective July 1, 2004, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas (the “City”). The agreement was amended effective December 13, 2010. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the “Subject Tract” for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Subject Tract within the boundaries of the District. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District. The City imposes a Sales and Use Tax within the boundaries of the Subject Tract at the rate of one percent (or the rate specified under the future amendments to Chapter 321 of the Tax Code). The City pays the District one-half of all Sales and Use Tax revenues generated within the boundaries of the Subject Tract. The City delivers to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Comptroller’s office. Sales tax revenues in the current fiscal year totaled \$221,631. The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the original agreement.



**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARCH 31, 2018**



**FAULKNEY GULLY MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 928,400	\$ 1,041,728	\$ 113,328
Water Service	600,000	598,785	(1,215)
Wastewater Service	273,000	269,589	(3,411)
Water Authority Fees	1,356,000	1,341,474	(14,526)
Penalty and Interest	12,000	11,518	(482)
Tap Connection and Inspection Fees	39,650	75,215	35,565
Water Authority Credits	617,874	618,098	224
Sales Tax Revenues	222,000	221,631	(369)
Miscellaneous Revenues	51,000	98,937	47,937
<b>TOTAL REVENUES</b>	<b>\$ 4,099,924</b>	<b>\$ 4,276,975</b>	<b>\$ 177,051</b>
<b>EXPENDITURES</b>			
Services Operations:			
Salaries (including Benefits)	\$ 24,720	\$ 34,150	\$ (9,430)
Professional Fees*	98,155	336,814	(238,659)
Contracted Services	244,000	253,303	(9,303)
Purchased Water Service/Pumpage Fees	1,362,000	1,379,530	(17,530)
Purchased Wastewater Service	578,400	460,273	118,127
Utilities	107,820	100,639	7,181
Repairs and Maintenance	201,300	417,127	(215,827)
Other	162,605	198,555	(35,950)
Capital Outlay	1,519,110	582,110	937,000
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,298,110</b>	<b>\$ 3,762,501</b>	<b>\$ 535,609</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (198,186)</b>	<b>\$ 514,474</b>	<b>\$ 712,660</b>
<b>FUND BALANCE - APRIL 1, 2017</b>	<b>7,897,112</b>	<b>7,897,112</b>	
<b>FUND BALANCE - MARCH 31, 2018</b>	<b>\$ 7,698,926</b>	<b>\$ 8,411,586</b>	<b>\$ 712,660</b>

\* Professional Fees show a large variance in the actual amount paid compared to the budgeted amounts. In prior years, the District recorded a payable in the government-wide financial statements for estimated legal fees that were unbilled and unpaid. During the current fiscal year, the District recorded expenditures for current legal fees as well as accrued but unpaid legal fees from prior years.

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL – SPECIAL REVENUE FUND  
FOR THE YEAR ENDED MARCH 31, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Wastewater Service	\$ 665,081	\$ 629,384	\$ (35,697)
Miscellaneous Revenues	<u>1,207,000</u>	<u>                    </u>	<u>(1,207,000)</u>
<b>TOTAL REVENUES</b>	<u>\$ 1,872,081</u>	<u>\$ 629,384</u>	<u>\$ (1,242,697)</u>
<b>EXPENDITURES</b>			
Services Operations:			
Salaries (including Benefits)	\$ 10,650	\$ 11,488	\$ (838)
Professional Fees	71,500	83,004	(11,504)
Contracted Services	56,780	56,583	197
Purchased Water Service	660	586	74
Utilities	120,360	108,384	11,976
Repairs and Maintenance	171,681	89,282	82,399
Lab Fees	39,000	46,424	(7,424)
Permits	12,200	10,151	2,049
Sludge Hauling	75,000	57,241	17,759
Chemicals	81,000	95,036	(14,036)
Insurance	11,300	11,125	175
Other	12,950	(26)	12,976
Capital Outlay	<u>1,209,000</u>	<u>60,106</u>	<u>1,148,894</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,872,081</u>	<u>\$ 629,384</u>	<u>\$ 1,242,697</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ -0-	\$ -0-	\$ -0-
<b>FUND BALANCE - APRIL 1, 2017</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCE - MARCH 31, 2018</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**

**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**MARCH 31, 2018**



**FAULKY GULLY MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED MARCH 31, 2018**

**1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:**

<u>  X  </u>	Retail Water	_____	Wholesale Water	<u>  X  </u>	Drainage
<u>  X  </u>	Retail Wastewater	_____	Wholesale Wastewater	_____	Irrigation
_____	Parks/Recreation	_____	Fire Protection	<u>  X  </u>	Security
_____	Solid Waste/Garbage	_____	Flood Control	_____	Roads
<u>  X  </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
_____	Other (specify): _____				

**2. RETAIL SERVICE PROVIDERS**

**a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):**

Based on the rate order approved October 17, 2013.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 8.00	5,000	N	\$ 0.60	5,001 to 20,000
				1.50	20,001 to 30,000
				2.50	30,001 to 40,000
				3.50	40,001 and up
WASTEWATER:	\$ 8.00	40,000	Y		
	10.00	40,001 to 80,000	Y		
	12.00	80,001 and up	Y		

**SURCHARGE:**

Regional Water Authority Fees \$3.35 per 1000 gallons used

District employs winter averaging for wastewater usage?

\_\_\_\_\_   X    
Yes                      No

Total monthly charges per 10,000 gallons usage: Water: \$11.00 Wastewater: \$8.00 Surcharge: \$33.50 Total: \$52.50

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED MARCH 31, 2018**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**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			x 1.0	
≤ <sup>3</sup> / <sub>4</sub> "	<u>2,369</u>	<u>2,369</u>	x 1.0	<u>2,369</u>
1"	<u>233</u>	<u>233</u>	x 2.5	<u>583</u>
1½"	<u>22</u>	<u>22</u>	x 5.0	<u>110</u>
2"	<u>88</u>	<u>88</u>	x 8.0	<u>704</u>
3"			x 15.0	
4"			x 25.0	
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>2,713</u></u>	<u><u>2,713</u></u>		<u><u>3,816</u></u>
Total Wastewater Connections	<u><u>2,610</u></u>	<u><u>2,610</u></u>	x 1.0	<u><u>2,610</u></u>

**3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)**

Gallons pumped into system:	154,913,000	Water Accountability Ratio: 92.5% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	405,914,000	
Gallons purchased:	283,997,000	From: North Harris County Regional Water Authority

See accompanying independent auditor's report.



**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED MARCH 31, 2018**

**4. STANDBY FEES** (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes  No

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes  No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely  Partly  Not at all

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely  Partly  Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes  No

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED MARCH 31, 2018**

PERSONNEL EXPENDITURES (Including Benefits)	\$ 34,150
PROFESSIONAL FEES:	
Auditing	\$ 15,600
Engineering	67,896
Legal	252,118
Financial Advisor	1,200
TOTAL PROFESSIONAL FEES	<u>\$ 336,814</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 937,323
Purchased Wastewater Service	460,273
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 1,397,596</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 15,265
Operations and Billing	170,685
TOTAL CONTRACTED SERVICES	<u>\$ 185,950</u>
UTILITIES:	
Electricity	\$ 94,933
Telephone	5,706
TOTAL UTILITIES	<u>\$ 100,639</u>
REPAIRS AND MAINTENANCE	<u>\$ 417,127</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 30,950
Election Costs	21,048
Insurance	17,710
Office Supplies and Postage	3,780
Payroll Taxes	5,142
Travel and Meetings	16,510
Other	9,622
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 104,762</u>
CAPITAL OUTLAY	<u>\$ 582,110</u>
TAP CONNECTIONS	<u>\$ 18,125</u>
SECURITY	<u>\$ 67,353</u>
OTHER EXPENDITURES:	
Chemicals	\$ 24,252
Laboratory Fees	11,932
Permit Fees	6,573
Reconnection Fees	18,493
Inspection Fees	10,065
Water Authority Pumpage Fees	442,207
Regulatory Assessment	4,353
TOTAL OTHER EXPENDITURES	<u>\$ 517,875</u>
TOTAL EXPENDITURES	<u><u>\$ 3,762,501</u></u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
INVESTMENTS  
MARCH 31, 2018**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 4,150,373	\$
Certificate of Deposit	XXXX5334	0.90%	04/23/18	245,000	1,007
Certificate of Deposit	XXXX1435	0.95%	05/22/18	240,000	806
Certificate of Deposit	XXXX0353	1.27%	07/23/18	2,000,000	17,606
Certificate of Deposit	XXXX1594	0.95%	05/24/18	245,000	961
TOTAL GENERAL FUND				<u>\$ 6,880,373</u>	<u>\$ 20,380</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 3,280	\$ -0-
TOTAL - ALL FUNDS				<u>\$ 6,883,653</u>	<u>\$ 20,380</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED MARCH 31, 2018**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - APRIL 1, 2017	\$	24,689		\$ 33,717
Adjustments to Beginning Balance		<u>(3,721)</u>	\$ 20,968	<u>(4,921)</u> \$ 28,796
Original 2017 Tax Levy	\$	993,053		\$ 1,226,713
Adjustment to 2017 Tax Levy		<u>52,160</u>	<u>1,045,213</u>	<u>64,433</u> <u>1,291,146</u>
TOTAL TO BE ACCOUNTED FOR			\$ 1,066,181	\$ 1,319,942
TAX COLLECTIONS:				
Prior Years	\$	17,294		\$ 22,133
Current Year		<u>1,024,434</u>	<u>1,041,728</u>	<u>1,265,478</u> <u>1,287,611</u>
TAXES RECEIVABLE - MARCH 31, 2018			<u>\$ 24,453</u>	<u>\$ 32,331</u>
TAXES RECEIVABLE BY YEAR:				
2017			\$ 20,779	\$ 25,668
2016			1,724	2,129
2015			874	1,058
2014			340	809
2013			245	683
2012			149	453
2011			60	200
2010 and prior			<u>282</u>	<u>1,331</u>
TOTAL			<u>\$ 24,453</u>	<u>\$ 32,331</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED MARCH 31, 2018**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:				
Land	\$ 139,742,565	\$ 134,571,455	\$ 132,370,320	\$ 128,259,928
Improvements	593,750,110	589,056,539	535,459,233	480,357,696
Personal Property	18,085,941	19,097,547	18,751,047	17,401,266
Exemptions	<u>(136,747,366)</u>	<u>(143,365,552)</u>	<u>(121,176,210)</u>	<u>(113,199,267)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 614,831,250</u>	<u>\$ 599,359,989</u>	<u>\$ 565,404,390</u>	<u>\$ 512,819,623</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.21	\$ 0.21	\$ 0.23	\$ 0.345
Maintenance	<u>0.17</u>	<u>0.17</u>	<u>0.19</u>	<u>0.145</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.38</u>	<u>0.38</u>	<u>0.42</u>	<u>0.490</u>
ADJUSTED TAX LEVY*	<u>\$ 2,336,359</u>	<u>\$ 2,277,568</u>	<u>\$ 2,375,411</u>	<u>\$ 2,513,648</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.01 %</u>	<u>99.83 %</u>	<u>99.92 %</u>	<u>99.95 %</u>

\* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.50 per \$100 of assessed valuation approved by voters on May 3, 2003.

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
MARCH 31, 2018**

REFUNDING SERIES - 2012

Due During Fiscal Years Ending March 31	Principal Due March 1	Interest Due September 1/ March 1	Total
2019	\$ 115,000	\$ 80,754	\$ 195,754
2020	115,000	76,465	191,465
2021	120,000	72,176	192,176
2022	120,000	67,699	187,699
2023	125,000	63,224	188,224
2024	135,000	58,561	193,561
2025	135,000	53,525	188,525
2026	140,000	48,490	188,490
2027	150,000	43,268	193,268
2028	150,000	37,673	187,673
2029	160,000	32,078	192,078
2030	165,000	26,110	191,110
2031	170,000	19,956	189,956
2032	180,000	13,614	193,614
2033	185,000	6,901	191,901
2034			
2035			
2036			
2037			
	<u>\$ 2,165,000</u>	<u>\$ 700,494</u>	<u>\$ 2,865,494</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
MARCH 31, 2018**

REFUNDING SERIES - 2015

Due During Fiscal Years Ending March 31	Principal Due March 1	Interest Due September 1/ March 1	Total
2019	\$ 920,000	\$ 161,181	\$ 1,081,181
2020	220,000	142,781	362,781
2021	225,000	138,381	363,381
2022	230,000	133,881	363,881
2023	235,000	128,707	363,707
2024	245,000	123,419	368,419
2025	255,000	117,906	372,906
2026	260,000	110,256	370,256
2027	270,000	102,456	372,456
2028	280,000	94,356	374,356
2029	290,000	85,956	375,956
2030	300,000	77,256	377,256
2031	310,000	68,256	378,256
2032	320,000	58,569	378,569
2033	340,000	48,569	388,569
2034	350,000	37,945	387,945
2035	365,000	27,007	392,007
2036	235,000	15,600	250,600
2037	245,000	7,963	252,963
	<u>\$ 5,895,000</u>	<u>\$ 1,680,445</u>	<u>\$ 7,575,445</u>

See accompanying independent auditor's report.

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**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
MARCH 31, 2018**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 1,035,000	\$ 241,935	\$ 1,276,935
2020	335,000	219,246	554,246
2021	345,000	210,557	555,557
2022	350,000	201,580	551,580
2023	360,000	191,931	551,931
2024	380,000	181,980	561,980
2025	390,000	171,431	561,431
2026	400,000	158,746	558,746
2027	420,000	145,724	565,724
2028	430,000	132,029	562,029
2029	450,000	118,034	568,034
2030	465,000	103,366	568,366
2031	480,000	88,212	568,212
2032	500,000	72,183	572,183
2033	525,000	55,470	580,470
2034	350,000	37,945	387,945
2035	365,000	27,007	392,007
2036	235,000	15,600	250,600
2037	245,000	7,963	252,963
	<u>\$ 8,060,000</u>	<u>\$ 2,380,939</u>	<u>\$ 10,440,939</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
CHANGES IN LONG-TERM BOND DEBT  
FOR THE YEAR ENDED MARCH 31, 2018**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2017
Faulkey Gully Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2012	\$ 3,430,000	\$ 2,275,000
Faulkey Gully Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2015	<u>7,665,000</u>	<u>6,790,000</u>
<b>TOTAL</b>	<u><u>\$ 11,095,000</u></u>	<u><u>\$ 9,065,000</u></u>

	Combination Tax and Refunding Bonds
Bond Authority:	
Amount Authorized by Voters	\$ 49,440,000
Amount Issued	<u>32,290,000</u>
Remaining to be Issued	<u>\$ 17,150,000</u>
Debt Service Fund cash and investment balances as of March 31, 2018:	<u>\$ 187,466</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u><u>\$ 549,523</u></u>

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding March 31, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 110,000	\$ 84,858	\$ 2,165,000	Branch Banking and Trust Company Charlotte, N.C.
	<u>895,000</u>	<u>188,031</u>	<u>5,895,000</u>	Amegy Bank, N.A.
<u>\$ - 0 -</u>	<u>\$ 1,005,000</u>	<u>\$ 272,889</u>	<u>\$ 8,060,000</u>	

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 1,041,728	\$ 1,008,390	\$ 1,078,446
Water Service	598,785	567,227	631,543
Wastewater Service	269,589	268,070	272,708
Water Authority Fees	1,341,474	1,101,250	1,005,463
Penalty and Interest	11,518	10,807	13,249
Tap Connection and Inspection Fees	75,215	36,470	19,030
Water Authority Credits	618,098	618,098	618,098
Sales Tax Revenues	221,631	232,033	227,978
Sale of Land			147,849
Miscellaneous Revenues	98,937	54,904	48,106
<b>TOTAL REVENUES</b>	\$ 4,276,975	\$ 3,897,249	\$ 4,062,470
<b>EXPENDITURES</b>			
Salaries (including Benefits)	\$ 34,150	\$ 24,733	\$ 25,920
Professional Fees	336,814	57,909	73,917
Contracted Services	253,303	239,161	237,798
Purchased Water Service	937,323	836,036	674,073
Purchased Wastewater Service	460,273	457,931	448,128
Utilities	100,639	102,743	122,469
Repairs and Maintenance	417,127	268,119	141,519
Water Authority Pumpage Fees	442,207	326,208	307,416
Other	198,555	157,890	159,017
Capital Outlay	582,110	434,071	266,733
<b>TOTAL EXPENDITURES</b>	\$ 3,762,501	\$ 2,904,801	\$ 2,456,990
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 514,474	\$ 992,448	\$ 1,605,480
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In(Out)	\$ - 0 -	\$ - 0 -	\$ - 0 -
<b>NET CHANGE IN FUND BALANCE</b>	\$ 514,474	\$ 992,448	\$ 1,605,480
<b>BEGINNING FUND BALANCE</b>	7,897,112	6,904,664	5,299,184
<b>ENDING FUND BALANCE</b>	\$ 8,411,586	\$ 7,897,112	\$ 6,904,664

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 732,439	\$ 648,751	24.2 %	25.7 %	26.6 %	20.3 %	18.3 %
630,430	652,666	14.0	14.6	15.5	17.4	18.4
270,398	270,904	6.3	6.9	6.7	7.5	7.6
1,033,505	1,002,860	31.4	28.3	24.8	28.5	28.3
11,817	11,258	0.3	0.3	0.3	0.3	0.3
41,105	137,825	1.8	0.9	0.5	1.1	3.9
618,098	559,574	14.5	15.9	15.2	17.1	15.8
240,747	217,517	5.2	6.0	5.6	6.6	6.1
44,528	45,099	2.3	1.4	1.2	1.2	1.3
<u>\$ 3,623,067</u>	<u>\$ 3,546,454</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 26,522	\$ 26,082	0.8 %	0.6 %	0.6 %	0.7 %	0.7 %
64,104	65,263	7.9	1.5	1.8	1.8	1.8
222,005	224,170	5.9	6.1	5.9	6.1	6.3
625,560	695,438	21.9	21.5	16.6	17.3	19.6
394,741	459,877	10.8	11.8	11.0	10.9	13.0
127,860	119,198	2.4	2.6	3.0	3.5	3.4
204,389	179,932	9.8	6.9	3.5	5.6	5.1
317,124	276,750	10.3	8.4	7.6	8.8	7.8
165,998	202,271	4.6	4.1	3.9	4.6	5.7
704,615	45,072	13.6	11.1	6.6	19.4	1.3
<u>\$ 2,852,918</u>	<u>\$ 2,294,053</u>	<u>88.0 %</u>	<u>74.6 %</u>	<u>60.5 %</u>	<u>78.7 %</u>	<u>64.7 %</u>
<u>\$ 770,149</u>	<u>\$ 1,252,401</u>	<u>12.0 %</u>	<u>25.4 %</u>	<u>39.5 %</u>	<u>21.3 %</u>	<u>35.3 %</u>
<u>\$ - 0 -</u>	<u>\$ (275,000)</u>					
\$ 770,149	\$ 977,401					
4,529,035	3,551,634					
<u>\$ 5,299,184</u>	<u>\$ 4,529,035</u>					

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 1,287,611	\$ 1,246,333	\$ 1,328,362
Penalty and Interest	16,011	11,831	18,090
Miscellaneous Revenues	607	1,807	803
<b>TOTAL REVENUES</b>	<b>\$ 1,304,229</b>	<b>\$ 1,259,971</b>	<b>\$ 1,347,255</b>
<b>EXPENDITURES</b>			
Other Expenditures	\$ 73,653	\$ 68,255	\$ 71,068
Debt Service Principal	1,005,000	965,000	935,000
Debt Service Interest and Fees	273,389	304,730	321,925
Bond Issuance Costs			
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,352,042</b>	<b>\$ 1,337,985</b>	<b>\$ 1,327,993</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (47,813)</b>	<b>\$ (78,014)</b>	<b>\$ 19,262</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$	\$	\$
Long-Term Debt Issued			
Transfer to Refunded Bond Escrow Agent			
Bond Discount			
Bond Premium			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (47,813)</b>	<b>\$ (78,014)</b>	<b>\$ 19,262</b>
<b>BEGINNING FUND BALANCE</b>	224,889	302,903	283,641
<b>ENDING FUND BALANCE</b>	<b>\$ 177,076</b>	<b>\$ 224,889</b>	<b>\$ 302,903</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	2,713	2,709	2,708
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	2,610	2,607	2,606

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 1,748,081	\$ 1,809,289	98.7 %	99.0 %	98.6 %	99.1 %	98.7 %
14,305	21,325	1.2	0.9	1.3	0.8	1.2
1,334	2,299	0.1	0.1	0.1	0.1	0.1
<u>\$ 1,763,720</u>	<u>\$ 1,832,913</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 67,240	\$ 69,423	5.6 %	5.4 %	5.3 %	3.8 %	3.8 %
1,565,000	1,485,000	77.1	76.6	69.4	88.7	81.0
482,566	533,535	21.0	24.2	23.9	27.4	29.1
274,400					15.6	
<u>\$ 2,389,206</u>	<u>\$ 2,087,958</u>	<u>103.7 %</u>	<u>106.2 %</u>	<u>98.6 %</u>	<u>135.5 %</u>	<u>113.9 %</u>
\$ (625,486)	\$ (255,045)	(3.7) %	(6.2) %	1.4 %	(35.5) %	(13.9) %
\$ 7,665,000	\$ 275,000					
(7,472,730)						
(63,725)						
121,005						
<u>\$ 249,550</u>	<u>\$ 275,000</u>					
\$ (375,936)	\$ 19,955					
659,577	639,622					
<u>\$ 283,641</u>	<u>\$ 659,577</u>					
2,705	2,694					
<u>2,603</u>	<u>2,593</u>					

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
MARCH 31, 2018**

District Mailing Address - Faulkey Gully Municipal Utility District  
13121 Louetta Road #1040  
Cypress, TX 77429-5155

District Telephone Number - (281) 320-2470

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of office for the year ended <u>March 31, 2018</u>	Expense reimbursements for the year ended <u>March 31, 2018</u>	<u>Title</u>
Kenneth R. Kana	05/15 05/19 (Elected)	\$ 6,200	\$ 2,586	President
J. Douglas Allen	05/17 05/21 (Elected)	\$ 5,850	\$ 2,685	Vice President/ Assistant Secretary
Lee W. Evey	05/15 05/19 (Elected)	\$ 6,000	\$ 2,362	Vice President/ Assistant Secretary
Bill F. Cheves	05/15 05/19 (Elected)	\$ 6,000	\$ 2,325	Secretary
John M. Prewitt	05/17 05/21 (Elected)	\$ 4,950	\$ 1,908	Treasurer/ Investment Officer
Russell E. Mechler	05/13 05/17 (Elected)	\$ 450	\$ 44	Secretary/ Assistant Vice President
Alexander W. Schultz	03/14 05/17 (Appointed)	\$ 450	\$ 76	Treasurer/ Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
June 21, 2017.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 17, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.



**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
MARCH 31, 2018**

<b>Employee</b>	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2018 District</u>	<u>Fees for the year ended March 31, 2018 STP</u>	<u>Title</u>
Barbara J. Evans	11/01/79	\$ 34,150	\$ 10,671	District Administrator
<b>Consultants:</b>				
Coats Rose, P.C.	09/01/80	\$ 287,615	\$ 46,424	General Counsel
McCall Gibson Swedlund Barfoot PLLC	09/17/87	\$ 15,600	\$ 2,650	Auditor
L&S District Services, LLC	04/15/99	\$ 15,265	\$ 3,783	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/15/96	\$ 10,345	\$ -0-	Delinquent Tax Attorney
A&S Engineers, Inc.	06/13/13	\$ 109,890	\$ 94,036	Engineer
The GMS Group, LLC	11/29/95	\$ 1,200	\$ -0-	Financial Advisor
Eagle Water Management, Inc.	02/19/09	\$ 485,827	\$ 137,348	Operator
Thomas W. Lee, RTA	11/20/79	\$ 43,428	\$ -0-	Tax Assessor/ Collector

See accompanying independent auditor's report.

