

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 371**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

August 31, 2023

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Houston, Texas 77092

Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 371
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 371 (the "District"), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 371, as of August 31, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, beginning fund balance in the General Fund and beginning net position has been restated to correct a misstatement from prior period. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

***Board of Directors
Harris County Municipal Utility District No. 371
Harris County, Texas***

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

***Board of Directors
Harris County Municipal Utility District No. 371
Harris County, Texas***

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information 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 Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Houston, Texas
December 19, 2023

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Management's Discussion and Analysis

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***Harris County Municipal Utility District No. 371
Management's Discussion and Analysis
August 31, 2023***

Using this Annual Report

Within this section of the financial report of Harris County Municipal Utility District No. 371 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended August 31, 2023. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

***Harris County Municipal Utility District No. 371
Management's Discussion and Analysis
August 31, 2023***

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

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

Financial Analysis of the District as a Whole

The District's net position at August 31, 2023, was \$2,842,708. A comparative summary of the District's overall financial position, as of August 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 6,800,748	\$ 5,772,486
Capital assets	<u>7,174,767</u>	<u>7,444,456</u>
Total assets	<u>13,975,515</u>	<u>13,216,942</u>
Total deferred outflows of resources	<u>196,627</u>	<u>218,657</u>
Current liabilities	1,330,374	1,203,145
Long-term liabilities	<u>9,999,060</u>	<u>10,917,367</u>
Total liabilities	<u>11,329,434</u>	<u>12,120,512</u>
Net position		
Net investment in capital assets	165,580	(130,911)
Restricted for debt service	530,343	501,321
Unrestricted	<u>2,146,785</u>	<u>944,677</u>
Total net position	<u>\$ 2,842,708</u>	<u>\$ 1,315,087</u>

During the current year, it was determined that current liabilities and unrestricted net position were misstated as a result of a financial statement classification error in the prior year. A prior period adjustment was made to correct current liabilities and unrestricted net position. Amounts reported for 2022 have been adjusted accordingly. See Note 3 for further information.

***Harris County Municipal Utility District No. 371
Management's Discussion and Analysis
August 31, 2023***

The total net position of the District increased during the current fiscal year by \$1,527,621. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2023</u>	<u>2022</u>
Revenues		
Property taxes, penalties and interest	\$ 2,932,880	\$ 2,786,763
Water and sewer service	706,791	735,361
Participant billings	1,401,250	1,075,468
Other	978,593	674,264
Total revenues	<u>6,019,514</u>	<u>5,271,856</u>
Expenses		
Current service operations	3,894,480	3,267,479
Interest and fees	327,724	355,372
Depreciation	269,689	269,689
Total expenses	<u>4,491,893</u>	<u>3,892,540</u>
Change in net position	1,527,621	1,379,316
Net position, beginning of year	1,315,087	(64,229)
Net position, end of year	<u>\$ 2,842,708</u>	<u>\$ 1,315,087</u>

Current service operations and ending net position for the 2022 fiscal year have been restated as a result of a financial statement classification error. See Note 3 for additional information.

Financial Analysis of the District's Funds

The District's combined fund balances, as of August 31, 2023, were \$6,207,224, which consists of \$5,472,457 in the General Fund, \$447,514 in the Debt Service Fund and \$287,253 in the Special Revenue Fund.

General Fund

A comparative summary of the General Fund's financial position as of August 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Total assets	<u>\$ 5,698,285</u>	<u>\$ 5,044,425</u>
Total liabilities	\$ 185,507	\$ 184,649
Total deferred inflows	40,321	37,710
Total fund balance	<u>5,472,457</u>	<u>4,822,066</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 5,698,285</u>	<u>\$ 5,044,425</u>

***Harris County Municipal Utility District No. 371
Management's Discussion and Analysis
August 31, 2023***

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

	<u>2023</u>	<u>2022</u>
Total revenues	\$ 3,348,054	\$ 2,934,430
Total expenditures	<u>(2,697,663)</u>	<u>(2,135,770)</u>
Revenues over expenditures	<u>\$ 650,391</u>	<u>\$ 798,660</u>

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

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because the District's assessed values increased from prior year.
- Water, sewer and regional water authority fee revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of August 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Total assets	<u>\$ 543,041</u>	<u>\$ 509,996</u>
Total liabilities	\$ 12,698	\$ 8,675
Total deferred inflows	82,829	73,762
Total fund balance	<u>447,514</u>	<u>427,559</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 543,041</u>	<u>\$ 509,996</u>

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

	<u>2023</u>	<u>2022</u>
Total revenues	\$ 1,251,849	\$ 1,246,819
Total expenditures	<u>(1,231,894)</u>	<u>(1,241,433)</u>
Revenues over expenditures	<u>\$ 19,955</u>	<u>\$ 5,386</u>

***Harris County Municipal Utility District No. 371
Management's Discussion and Analysis
August 31, 2023***

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

Special Revenue Fund

The District uses a Special Revenue Fund to account for the operations of a joint water plant. A comparative summary of the Special Revenue Fund's financial position as of August 31, 2023 and 2022 is as follows:

	2023	2022
Total assets	<u>\$ 645,263</u>	<u>\$ 303,906</u>
Total liabilities	\$ 358,010	\$ 270,662
Total fund balance	<u>287,253</u>	<u>33,244</u>
Total liabilities and fund balance	<u>\$ 645,263</u>	<u>\$ 303,906</u>

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

	2023	2022
Total revenues	\$ 1,407,932	\$ 1,075,885
Total expenditures	<u>(1,153,923)</u>	<u>(1,086,926)</u>
Revenues over/(under) expenditures	<u>\$ 254,009</u>	<u>\$ (11,041)</u>

Revenues in the Special Revenue Fund primarily consist of charges to participants in the joint water plant, which are based on a flat rate per 1,000 gallons of water supplied to each participant. See Note 9 for additional information.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$547,971 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

***Harris County Municipal Utility District No. 371
Management's Discussion and Analysis
August 31, 2023***

Capital Assets

Capital assets held by the District at August 31, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Capital assets not being depreciated		
Land and improvements	<u>\$ 749,300</u>	<u>\$ 749,300</u>
Capital assets being depreciated		
Infrastructure	10,072,916	10,072,916
Equipment	<u>545,597</u>	<u>545,597</u>
	<u>10,618,513</u>	<u>10,618,513</u>
Less accumulated depreciation		
Infrastructure	(3,980,802)	(3,749,664)
Equipment	<u>(212,244)</u>	<u>(173,693)</u>
	<u>(4,193,046)</u>	<u>(3,923,357)</u>
Depreciable capital assets, net	<u>6,425,467</u>	<u>6,695,156</u>
Capital assets, net	<u><u>\$ 7,174,767</u></u>	<u><u>\$ 7,444,456</u></u>

Long-Term Debt

At August 31, 2023 and 2022, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2023</u>	<u>2022</u>
2016 Refunding	\$ 4,290,000	\$ 4,625,000
2019 Refunding	3,045,000	3,170,000
2020 Refunding	<u>3,055,000</u>	<u>3,420,000</u>
	<u><u>\$ 10,390,000</u></u>	<u><u>\$ 11,215,000</u></u>

At August 31, 2023, the District had \$12,650,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$18,520,061 for refunding purposes.

***Harris County Municipal Utility District No. 371
Management's Discussion and Analysis
August 31, 2023***

Next Year's Budget

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

	<u>2023 Actual</u>	<u>2024 Budget</u>
Total revenues	\$ 3,348,054	\$ 3,297,130
Total expenditures	<u>(2,697,663)</u>	<u>(2,651,354)</u>
Revenues over expenditures	650,391	645,776
Beginning fund balance	<u>4,822,066</u>	<u>5,472,457</u>
Ending fund balance	<u><u>\$ 5,472,457</u></u>	<u><u>\$ 6,118,233</u></u>

Property Taxes

The District's property tax base increased approximately \$37,459,000 for the 2023 tax year from \$374,159,889 to \$411,618,801. This increase was primarily due to increased property values. For the 2023 tax year, the District has levied a maintenance tax rate of \$0.42 per \$100 of assessed value and a debt service tax rate of \$0.305 per \$100 of assessed value, for a total combined tax rate of \$0.725 per \$100 of assessed value. Tax rates for the 2022 tax year were \$0.458 per \$100 for maintenance and operations and \$0.32 per \$100 for debt service for a combined total of \$0.778 per \$100 of assessed value.

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Basic Financial Statements

Harris County Municipal Utility District No. 371
Statement of Net Position and Governmental Funds Balance Sheet
August 31, 2023

	General Fund	Debt Service Fund	Special Revenue Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 67,043	\$ 32,688	\$ 77,001	\$ 176,732	\$ -	\$ 176,732
Investments	5,334,218	426,947	315,596	6,076,761		6,076,761
Taxes receivable, net	37,990	82,829		120,819		120,819
Customer service receivables	272,841			272,841		272,841
Internal balances	(147,328)	577	146,751			
Due from participants			105,915	105,915		105,915
Due from others	6,830			6,830		6,830
Other receivables	13,125			13,125		13,125
Prepaid items	27,725			27,725		27,725
Operating reserve	85,841			85,841	(85,841)	
Capital assets not being depreciated					749,300	749,300
Capital assets, net					6,425,467	6,425,467
Total Assets	\$ 5,698,285	\$ 543,041	\$ 645,263	\$ 6,886,589	7,088,926	13,975,515
Deferred Outflows of Resources						
Deferred difference on refunding					196,627	196,627
Liabilities						
Accounts payable	\$ 87,581	\$ -	\$ 196,027	\$ 283,608		283,608
Other payables	11,732	12,698		24,430		24,430
Customer deposits	86,194			86,194		86,194
Operating reserve from participants			161,983	161,983	(85,841)	76,142
Long-term debt						
Due within one year					860,000	860,000
Due after one year					9,999,060	9,999,060
Total Liabilities	185,507	12,698	358,010	556,215	10,773,219	11,329,434
Deferred Inflows of Resources						
Deferred property taxes	37,990	82,829		120,819	(120,819)	
Deferred City of Houston sales tax rebates	2,331			2,331	(2,331)	
Fund Balances/Net Position						
Fund Balances						
Nonspendable	113,566			113,566	(113,566)	
Restricted		447,514		447,514	(447,514)	
Committed			287,253	287,253	(287,253)	
Unassigned	5,358,891			5,358,891	(5,358,891)	
Total Fund Balances	5,472,457	447,514	287,253	6,207,224	(6,207,224)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 5,698,285	\$ 543,041	\$ 645,263	\$ 6,886,589		
Net Position						
Net investment in capital assets					165,580	165,580
Restricted for debt service					530,343	530,343
Unrestricted					2,146,785	2,146,785
Total Net Position					\$ 2,842,708	\$ 2,842,708

See notes to basic financial statements.

Harris County Municipal Utility District No. 371
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended August 31, 2023

	General Fund	Debt Service Fund	Special Revenue Fund	Total	Adjustments	Statement of Activities
Revenues						
Water service	\$ 378,588	\$ -	\$ -	\$ 378,588	\$ -	\$ 378,588
Sewer service	328,203			328,203		328,203
Property taxes	1,707,772	1,193,536		2,901,308	6,090	2,907,398
Penalties and interest	9,693	8,861		18,554	6,928	25,482
Participant billings			1,401,250	1,401,250		1,401,250
Tap connection and inspection	7,775			7,775		7,775
Regional water authority fees	630,323			630,323		630,323
City of Houston sales tax rebates	26,640			26,640	(1,339)	25,301
Miscellaneous	18,038			18,038		18,038
Investment earnings	241,022	49,452	6,682	297,156		297,156
Total Revenues	3,348,054	1,251,849	1,407,932	6,007,835	11,679	6,019,514
Expenditures/Expenses						
Current service operations						
Purchased services	992,630			992,630		992,630
Professional fees	163,257		8,669	171,926		171,926
Contracted services	850,990	37,628	36,482	925,100		925,100
Repairs and maintenance	484,255		129,964	614,219		614,219
Utilities	105,837		56,957	162,794		162,794
Regional water authority fees			913,788	913,788		913,788
Administrative	84,334	5,266	8,063	97,663		97,663
Other	16,360			16,360		16,360
Debt service						
Principal		825,000		825,000	(825,000)	
Interest and fees		364,000		364,000	(36,276)	327,724
Depreciation					269,689	269,689
Total Expenditures/Expenses	2,697,663	1,231,894	1,153,923	5,083,480	(591,587)	4,491,893
Revenues Over Expenditures	650,391	19,955	254,009	924,355	(924,355)	
Change in Net Position					1,527,621	1,527,621
Fund Balance/Net Position						
Beginning of the year (restated - Note 3)	4,822,066	427,559	33,244	5,282,869	(3,967,782)	1,315,087
End of the year	\$ 5,472,457	\$ 447,514	\$ 287,253	\$ 6,207,224	\$ (3,364,516)	\$ 2,842,708

See notes to basic financial statements.

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 371 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Natural Resource Conservation Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated March 16, 2000, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on March 28, 2000, and the first bonds were issued on November 8, 2001.

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

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

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

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

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

- The General Fund is used to account for the operations of the District’s water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Special Revenue Fund is used to account for activities of a joint water plant. The principal source of revenues is participant billings, which are based on a flat rate per 1,000 gallons of water supplied to each participant district. See Note 9 for additional information.

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

Measurement Focus and Basis of Accounting

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

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

Use of Restricted Resources

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

Prepaid Items

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At August 31, 2023, an allowance of \$1,761 was provided for possible uncollectible property taxes. An allowance for uncollectible service accounts was not considered necessary.

Unbilled Service Revenues

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled at year-end has been included in the accompanying financial statements.

Interfund Activity

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

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Depreciable capital assets, which primarily consist of water and wastewater facilities, are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	20-45 years
Equipment	10 years

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

Deferred Inflows and Outflows of Financial Resources

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

At the fund level, property taxes and City of Houston sales taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Deferred outflows of financial resources at the government-wide level are from a refunding bond transaction in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District's committed fund balances in the Special Revenue Fund consists of amounts restricted for the operation of the joint water plant.

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the value of unbilled utility revenues and receivables; and the useful lives and impairment of capital assets. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds	\$ 6,207,224
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 11,367,813	
Less accumulated depreciation	<u>(4,193,046)</u>	
Change due to capital assets		7,174,767

The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the *Statement of Net Position* and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.

196,627

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of bonds payable, net of discount and premium.

(10,859,060)

Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.

Property taxes	120,819	
City of Houston sales tax rebates	<u>2,331</u>	
		123,150

Total net position - governmental activities	<u><u>\$ 2,842,708</u></u>
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Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

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

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

Net change in fund balances - total governmental funds \$ 924,355

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

Property taxes and related penalties and interest	\$ 13,018	
City of Houston sales tax rebates	(1,339)	
		11,679

In the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset. (269,689)

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

Principal payments	825,000	
Interest expense accrual	36,276	
		861,276

Change in net position of governmental activities \$ 1,527,621

Note 3 – Prior Period Adjustment

During the current fiscal year, it was determined that in the prior year, other payables and professional fees in the General Fund were misstated as a result of a financial statement classification error. As a result, fund balance in the General Fund and net position was overstated by \$34,851. During the current year, a prior period adjustment was made to correct the classification error. The effect of this prior period adjustment to beginning fund balance and net position are as follows:

	General Fund Fund Balance	Net Position
Beginning balance, as reported	\$ 4,856,917	\$ 1,349,938
Change due to correction of error	(34,851)	(34,851)
Beginning balance, restated	\$ 4,822,066	\$ 1,315,087

Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

Note 4 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

As of August 31, 2023, the District’s investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
Texas CLASS	General	\$ 5,334,218		
	Debt Service	426,947		
	Special Revenue	315,596		
Total		<u>\$ 6,076,761</u>	AAAm	40 days

Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

Note 4 – Deposits and Investments (continued)

Texas CLASS

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

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

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

Investment Credit and Interest Rate Risk

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

Note 5 – Interfund Balances and Transactions

Amounts due to/from other funds at August 31, 2023, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
Debt Service Fund	General Fund	\$ 577	Tax transfers in excess of maintenance and operation tax collections
Special Revenue Fund	General Fund	146,751	Joint water plant participant billings

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

Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

Note 6 – Capital Assets

A summary of changes in capital assets, for the year ended August 31, 2023, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 749,300	\$ -	\$ 749,300
Capital assets being depreciated			
Infrastructure	10,072,916		10,072,916
Equipment	545,597		545,597
	<u>10,618,513</u>		<u>10,618,513</u>
Less accumulated depreciation			
Infrastructure	(3,749,664)	(231,138)	(3,980,802)
Equipment	(173,693)	(38,551)	(212,244)
	<u>(3,923,357)</u>	<u>(269,689)</u>	<u>(4,193,046)</u>
Depreciable capital assets, net	<u>6,695,156</u>	<u>(269,689)</u>	<u>6,425,467</u>
Capital assets, net	<u>\$ 7,444,456</u>	<u>\$ (269,689)</u>	<u>\$ 7,174,767</u>

Depreciation expense for the current year was \$269,689.

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 10,390,000
Unamortized discounts	(19,600)
Unamortized premium	488,660
	<u>\$ 10,859,060</u>
Due within one year	<u>\$ 860,000</u>

Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

Note 7 – Long-Term Debt (continued)

The District’s bonds payable at August 31, 2023, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2016 Refunding	\$ 4,290,000	\$ 6,170,000	2.00% - 4.00%	September 1, 2017/2033	September 1, March 1	September 1, 2023
2019 Refunding	3,045,000	3,355,000	2.50% - 3.00%	September 1, 2020/2033	September 1, March 1	September 1, 2024
2020 Refunding	3,055,000	3,775,000	2.00% - 4.00%	September 1, 2021/2030	September 1, March 1	September 1, 2025
	<u>\$ 10,390,000</u>					

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

At August 31, 2023, the District had authorized but unissued bonds in the amount of \$12,650,000 for water, sewer and drainage facilities and \$18,520,061 for refunding purposes.

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

Bonds payable, beginning of year	\$ 11,215,000
Bonds retired	(825,000)
Bonds payable, end of year	<u>\$ 10,390,000</u>

Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

Note 7 – Long-Term Debt (continued)

The debt service payment due September 1 was made during the current fiscal year. The following schedule was prepared presuming this practice will continue. As of August 31, 2023, annual debt service requirements on bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2024	\$ 860,000	\$ 333,350	\$ 1,193,350
2025	895,000	303,750	1,198,750
2026	930,000	269,250	1,199,250
2027	970,000	233,350	1,203,350
2028	1,005,000	204,700	1,209,700
2029	1,035,000	174,900	1,209,900
2030	1,070,000	144,200	1,214,200
2031	1,170,000	113,050	1,283,050
2032	1,205,000	76,600	1,281,600
2033	1,250,000	39,050	1,289,050
	<u>\$ 10,390,000</u>	<u>\$ 1,892,200</u>	<u>\$ 12,282,200</u>

Note 8 – Property Taxes

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

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2023 fiscal year was financed through the 2022 tax levy, pursuant to which the District levied property taxes of \$0.778 per \$100 of assessed value, of which \$0.458 was allocated to maintenance and operations and \$0.32 was allocated to debt service. The resulting tax levy was \$2,910,964 on the adjusted taxable value of \$374,159,889.

Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

Note 8 – Property Taxes (continued)

Net property taxes receivable, at August 31, 2023, consisted of the following:

Current year taxes receivable	\$ 15,989
Prior years taxes receivable	53,620
Less allowance for uncollectible accounts	<u>(1,761)</u>
	67,848
Penalty and interest receivable	<u>52,971</u>
Net property taxes receivable	<u><u>\$ 120,819</u></u>

Note 9 – Joint Water Plant

The District, a developer in the area of the District and Harris County Municipal Utility District No. 374 (“MUD 374”) have entered into an agreement whereby each owns a portion of a water plant and its site. The District is responsible for the operation and maintenance of the water plant and has established a Special Revenue Fund to account for the activities of the water plant. Each party has made an operating reserve deposit to the Special Revenue Fund and is billed monthly for maintenance and operating costs based on their respective usage in accordance with a budgeted unit cost. The amounts billed to each party during the year and cumulative operating reserves paid by the participants are as follows:

<u>Participant</u>	<u>Revenues</u>	<u>Operating Reserve</u>
District	\$ 992,629	\$ 85,841
MUD 374	263,569	63,793
Developer	<u>145,052</u>	<u>12,349</u>
	<u><u>\$ 1,401,250</u></u>	<u><u>\$ 161,983</u></u>

Note 10 – West Harris County Regional Water Authority

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

The Authority charges a groundwater pumpage fee to all permitted well owners within its boundaries and a surface water fee for all surface water provided to water suppliers. As of August 31, 2023, the groundwater pumpage fee was \$3.95 per 1,000 gallons of water pumped and surface water fee was \$4.35 per 1,000 gallons of surface water delivered to the District. This rate is subject to future increases. The District passes this cost on to its customers. During the current year, the District recognized \$630,323 in revenues related to surface water conversion.

Harris County Municipal Utility District No. 371
Notes to Financial Statements
August 31, 2023

Note 11 – Strategic Partnership Agreement

On December 12, 2008, the District entered into a thirty-year Strategic Partnership Agreement with the City of Houston (the “City”). The City annexed a portion of the District for limited purposes. At the end of the thirty-year term of this agreement, the parties may renegotiate the agreement, agree to a full purpose annexation of the District, or allow the agreement to expire. During the period of limited purpose annexation, the City shall impose a sales and use tax on retail sales within the annexed area at a rate of one percent. The City will rebate to the District fifty percent of the sales and use tax that the City collects within the boundaries of the District. As consideration for receipt of the funds from the City, the District shall take one or a combination of the following actions: 1) accelerate the development of the water, wastewater and drainage facilities; 2) accelerate reimbursement to developers; 3) lower the overall property tax rate; or 4) perform other District functions that might otherwise be hindered by financial limitations, all of which would be done in order to encourage development of the District. During the current year, the District recognized \$25,301 in sales tax revenues from the City.

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

Harris County Municipal Utility District No. 371
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended August 31, 2023

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 300,000	\$ 378,588	\$ 78,588
Sewer service	336,000	328,203	(7,797)
Property taxes	1,692,398	1,707,772	15,374
Penalties and interest	7,800	9,693	1,893
Tap connection and inspection	7,920	7,775	(145)
Regional water authority fees	414,000	630,323	216,323
City of Houston sales tax rebates	18,000	26,640	8,640
Miscellaneous	17,100	18,038	938
Investment earnings	55,200	241,022	185,822
Total Revenues	<u>2,848,418</u>	<u>3,348,054</u>	<u>499,636</u>
Expenditures			
Current service operations			
Purchased services	809,400	992,630	(183,230)
Professional fees	190,440	163,257	27,183
Contracted services	782,595	850,990	(68,395)
Repairs and maintenance	751,080	484,255	266,825
Utilities	95,966	105,837	(9,871)
Administrative	101,607	84,334	17,273
Other	14,910	16,360	(1,450)
Total Expenditures	<u>2,745,998</u>	<u>2,697,663</u>	<u>48,335</u>
Revenues Over Expenditures	102,420	650,391	547,971
Fund Balance			
Beginning of the year	4,822,066	4,822,066	
End of the year	<u>\$ 4,924,486</u>	<u>\$ 5,472,457</u>	<u>\$ 547,971</u>

*Harris County Municipal Utility District No. 371
 Required Supplementary Information - Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended August 31, 2023*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Participant billings	\$ 1,131,468	\$ 1,401,250	\$ 269,782
Investment earnings	1,380	6,682	5,302
Total Revenues	<u>1,132,848</u>	<u>1,407,932</u>	<u>275,084</u>
Expenditures			
Current service operations			
Professional fees	13,000	8,669	4,331
Contracted services	33,750	36,482	(2,732)
Repairs and maintenance	119,100	129,964	(10,864)
Utilities	45,295	56,957	(11,662)
Regional water authority fees	786,327	913,788	(127,461)
Administrative	8,130	8,063	67
Other	120		120
Total Expenditures	<u>1,005,722</u>	<u>1,153,923</u>	<u>(148,201)</u>
Revenues Over Expenditures	127,126	254,009	126,883
Fund Balance			
Beginning of the year	33,244	33,244	
End of the year	<u>\$ 160,370</u>	<u>\$ 287,253</u>	<u>\$ 126,883</u>

Harris County Municipal Utility District No. 371
Notes to Required Supplementary Information
August 31, 2023

Budgets and Budgetary Accounting

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

Texas Supplementary Information

Harris County Municipal Utility District No. 371

TSI-1. Services and Rates

August 31, 2023

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

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

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 20.50	10,000	N	\$ 1.50	10,001 to 20,000
				1.75	20,001 to 30,000
				2.00	30,001 to 40,000
				3.50	40,001 to no limit
Wastewater:	\$ 31.00	N/A	Y		to _____
Surcharge:	\$ -	N/A	N	\$ 4.35	0 to no limit

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 64.00 Wastewater \$ 31.00

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	717	714	x 1.0	714
1"	158	157	x 2.5	393
1.5"	4	4	x 5.0	20
2"	9	9	x 8.0	72
3"			x 15.0	
4"	1	1	x 25.0	25
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	889	885		1,224
Total Wastewater	859	856	x 1.0	856

See accompanying auditor's report.

Harris County Municipal Utility District No. 371
TSI-1. Services and Rates
August 31, 2023

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons pumped into system:	<u>221,333,000</u>	Water Accountability Ratio:
Gallons billed/sold to customers:	<u>207,192,300</u>	(Gallons billed / Gallons pumped)
		<u>93.61%</u>

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: _____

5. Location of District:

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Harris County

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

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

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

ETJs in which the District is located: City of Houston

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

If Yes, by whom? _____

See accompanying auditor's report.

*Harris County Municipal Utility District No. 371
 TSI-2. General Fund Expenditures
 For the Year Ended August 31, 2023*

Purchased services	<u>\$ 992,630</u>
Professional fees	
Legal	106,946
Audit	15,000
Engineering	41,311
	<u>163,257</u>
Contracted services	
Bookkeeping	24,425
Operator	85,429
Garbage collection	188,121
Security	484,748
Tap connection and inspection	11,041
Sludge removal	57,226
	<u>850,990</u>
Repairs and maintenance	<u>484,255</u>
Utilities	<u>105,837</u>
Administrative	
Directors fees	8,686
Printing and office supplies	10,236
Insurance	13,327
Other	52,085
	<u>84,334</u>
Other	<u>16,360</u>
Total expenditures	<u><u>\$ 2,697,663</u></u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 371
TSI-3. Investments
August 31, 2023

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
Texas CLASS	Variable	N/A	\$ 5,334,218
Debt Service			
Texas CLASS	Variable	N/A	426,947
Special Revenue			
Texas CLASS	Variable	N/A	<u>315,596</u>
Total - All Funds			<u><u>\$ 6,076,761</u></u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 371
TSI-4. Taxes Levied and Receivable
August 31, 2023

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 34,040	\$ 27,718	\$ 61,758	
Adjustments	(1,930)	(1,636)	(3,566)	
Adjusted Receivable	32,110	26,082	58,192	
2022 Original Tax Levy	1,615,132	1,128,477	2,743,609	
Adjustments	98,520	68,835	167,355	
Adjusted Tax Levy	1,713,652	1,197,312	2,910,964	
Total to be accounted for	1,745,762	1,223,394	2,969,156	
Tax collections:				
Current year	1,704,240	1,190,735	2,894,975	
Prior years	3,532	2,801	6,333	
Total Collections	1,707,772	1,193,536	2,901,308	
Taxes Receivable, End of Year	\$ 37,990	\$ 29,858	\$ 67,848	
Taxes Receivable, By Years				
2022	\$ 9,412	\$ 6,577	\$ 15,989	
2021	3,754	3,032	6,786	
2020	2,377	1,902	4,279	
2019 and prior	22,447	18,347	40,794	
Taxes Receivable, End of Year	\$ 37,990	\$ 29,858	\$ 67,848	
	2022	2021	2020	2019
Property Valuations:				
Land	\$ 73,661,181	\$ 73,560,085	\$ 65,733,439	\$ 60,009,104
Improvements	358,266,708	275,134,545	257,810,366	252,229,501
Personal Property	4,274,148	3,858,021	3,236,194	3,194,077
Exemptions	(62,042,148)	(18,993,137)	(15,004,353)	(14,802,868)
Total Property Valuations	\$ 374,159,889	\$ 333,559,514	\$ 311,775,646	\$ 300,629,814
Tax Rates per \$100 Valuation:				
Maintenance tax rates *	\$ 0.458	\$ 0.458	\$ 0.475	\$ 0.42
Debt service tax rates	0.320	0.370	0.380	0.44
Total Tax Rates per \$100 Valuation	\$ 0.778	\$ 0.828	\$ 0.855	\$ 0.86
Adjusted Tax Levy:	\$ 2,910,964	\$ 2,761,873	\$ 2,665,682	\$ 2,585,416
Percentage of Taxes Collected to Taxes Levied **	99.45%	99.75%	99.84%	99.84%

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

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

See accompanying auditor's report.

Harris County Municipal Utility District No. 371
TSI-5. Long-Term Debt Service Requirements
Series 2016 Refunding--by Years
August 31, 2023

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2024	\$ 350,000	\$ 168,100	\$ 518,100
2025	360,000	157,600	517,600
2026	380,000	143,200	523,200
2027	395,000	128,000	523,000
2028	420,000	112,200	532,200
2029	435,000	95,400	530,400
2030	455,000	78,000	533,000
2031	480,000	59,800	539,800
2032	495,000	40,600	535,600
2033	520,000	20,800	540,800
	<u>\$ 4,290,000</u>	<u>\$ 1,003,700</u>	<u>\$ 5,293,700</u>

See accompanying auditor's report.

*Harris County Municipal Utility District No. 371
 TSI-5. Long-Term Debt Service Requirements
 Series 2019 Refunding--by Years
 August 31, 2023*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2024	\$ 130,000	\$ 80,050	\$ 210,050
2025	130,000	76,150	206,150
2026	130,000	72,250	202,250
2027	135,000	68,350	203,350
2028	130,000	64,300	194,300
2029	130,000	60,400	190,400
2030	130,000	56,500	186,500
2031	690,000	53,250	743,250
2032	710,000	36,000	746,000
2033	730,000	18,250	748,250
	<u>\$ 3,045,000</u>	<u>\$ 585,500</u>	<u>\$ 3,630,500</u>

See accompanying auditor's report.

*Harris County Municipal Utility District No. 371
 TSI-5. Long-Term Debt Service Requirements
 Series 2020 Refunding--by Years
 August 31, 2023*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2024	\$ 380,000	\$ 85,200	\$ 465,200
2025	405,000	70,000	475,000
2026	420,000	53,800	473,800
2027	440,000	37,000	477,000
2028	455,000	28,200	483,200
2029	470,000	19,100	489,100
2030	485,000	9,700	494,700
	<u>\$ 3,055,000</u>	<u>\$ 303,000</u>	<u>\$ 3,358,000</u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 371
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
August 31, 2023

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2024	\$ 860,000	\$ 333,350	\$ 1,193,350
2025	895,000	303,750	1,198,750
2026	930,000	269,250	1,199,250
2027	970,000	233,350	1,203,350
2028	1,005,000	204,700	1,209,700
2029	1,035,000	174,900	1,209,900
2030	1,070,000	144,200	1,214,200
2031	1,170,000	113,050	1,283,050
2032	1,205,000	76,600	1,281,600
2033	1,250,000	39,050	1,289,050
	<u>\$ 10,390,000</u>	<u>\$ 1,892,200</u>	<u>\$ 12,282,200</u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 371
TSI-6. Change in Long-Term Bonded Debt
August 31, 2023

	Bond Issue			Totals
	Series 2016 Refunding	Series 2019 Refunding	Series 2020 Refunding	
Interest rate	2.00% - 4.00%	2.50% - 3.00%	2.00% - 4.00%	
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	
Maturity dates	9/1/17 - 9/1/33	9/1/20 - 9/1/33	9/1/21 - 9/1/30	
Beginning bonds outstanding	\$ 4,625,000	\$ 3,170,000	\$ 3,420,000	\$ 11,215,000
Bonds retired	(335,000)	(125,000)	(365,000)	(825,000)
Ending bonds outstanding	<u>\$ 4,290,000</u>	<u>\$ 3,045,000</u>	<u>\$ 3,055,000</u>	<u>\$ 10,390,000</u>
Interest paid during fiscal year	<u>\$ 178,150</u>	<u>\$ 83,800</u>	<u>\$ 99,800</u>	<u>\$ 361,750</u>
Paying agent's name and city All Series	<u>Bank of New York Mellon Trust Company, N.A., Dallas, Texas</u>			

	Water, Sewer and Drainage Bonds	Refunding Bonds
Bond Authority:		
Amount Authorized by Voters	\$ 32,500,000	\$ 19,500,000
Amount Issued	(19,850,000)	(979,939)
Remaining To Be Issued	<u>\$ 12,650,000</u>	<u>\$ 18,520,061</u>

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

Debt Service Fund cash and investment balances as of August 31, 2023:	<u>\$ 459,635</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 1,228,220</u>

See accompanying auditor's report.

Harris County Municipal Utility District No. 371

TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund

For the Last Five Fiscal Years

	Amounts				
	2023	2022**	2021	2020	2019
Revenues					
Water service	\$ 378,588	\$ 369,338	\$ 323,723	\$ 345,161	\$ 334,119
Sewer service	328,203	366,023	332,854	332,150	329,979
Property taxes	1,707,772	1,522,282	1,487,049	1,251,562	1,247,782
Penalties and interest	9,693	11,078	6,562	10,011	17,076
Tap connection and inspection	7,775	8,375	9,444	20,366	12,821
Regional water authority fees	630,323	589,469	470,651	487,931	414,468
City of Houston sales tax rebates	26,640	20,452	18,000	16,522	17,133
Miscellaneous	18,038	19,321	72,801	15,952	47,418
Investment earnings	241,022	28,092	2,688	52,650	110,818
Total Revenues	3,348,054	2,934,430	2,723,772	2,532,305	2,531,614
Expenditures					
Current service operations					
Purchased services	992,630	766,571	719,054	515,537	564,991
Professional fees	163,257	170,975	161,051	183,319	242,187
Contracted services	850,990	705,083	754,985	726,828	732,509
Repairs and maintenance	484,255	283,377	301,167	352,946	377,434
Utilities	105,837	99,077	104,652	115,416	113,103
Administrative	84,334	92,602	78,247	79,919	68,008
Other	16,360	18,085	26,552	15,017	11,427
Capital outlay			1,041,662	977,971	143,684
Total Expenditures	2,697,663	2,135,770	3,187,370	2,966,953	2,253,343
Revenues Over/(Under) Expenditures	\$ 650,391	\$ 798,660	\$ (463,598)	\$ (434,648)	\$ 278,271

*Percentage is negligible

**Professional fees for 2022 has been restated as a result of a financial statement classification error.

See accompanying auditor's report.

Percent of Fund Total Revenues

2023	2022	2021	2020	2019
11%	13%	12%	14%	13%
10%	12%	12%	13%	13%
51%	52%	55%	49%	49%
*	*	*	*	1%
*	*	*	1%	1%
19%	20%	17%	19%	16%
1%	1%	1%	1%	1%
1%	1%	3%	1%	2%
7%	1%	*	2%	4%
100%	100%	100%	100%	100%

30%	26%	26%	20%	22%
5%	6%	6%	7%	10%
25%	24%	28%	29%	29%
14%	10%	11%	14%	15%
3%	3%	4%	5%	4%
3%	3%	3%	3%	3%
*	1%	1%	1%	*
		38%	39%	6%
80%	73%	117%	118%	89%
20%	27%	(17%)	(18%)	11%

Harris County Municipal Utility District No. 371
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years

	Amounts				
	2023	2022	2021	2020	2019
Revenues					
Property taxes	\$ 1,193,536	\$ 1,230,055	\$ 1,191,951	\$ 1,311,154	\$ 1,291,751
Penalties and interest	8,861	9,099	13,951	7,493	12,762
Miscellaneous			30		
Investment earnings	49,452	7,665	406	7,606	21,509
Total Revenues	1,251,849	1,246,819	1,206,338	1,326,253	1,326,022
Expenditures					
Tax collection services	42,894	44,783	38,914	36,271	38,369
Other			30		
Debt service					
Principal	825,000	805,000	780,000	770,000	705,000
Interest and fees	364,000	391,650	424,690	496,879	542,856
Debt issuance costs			176,110	146,503	
Total Expenditures	1,231,894	1,241,433	1,419,744	1,449,653	1,286,225
Revenues Over/(Under) Expenditures	\$ 19,955	\$ 5,386	\$ (213,406)	\$ (123,400)	\$ 39,797
Total Active Retail Water Connections	885	888	886	887	883
Total Active Retail Wastewater Connections	856	859	857	858	854

*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues

2023	2022	2021	2020	2019
95%	98%	99%	98%	97%
1%	1%	1%	1%	1%
		*		
4%	1%	*	1%	2%
100%	100%	100%	100%	100%
3%	4%	3%	3%	3%
		*		
66%	65%	65%	58%	53%
29%	31%	35%	37%	41%
		15%	11%	
98%	100%	118%	109%	97%
2%	0%	(18%)	(9%)	3%

Harris County Municipal Utility District No. 371
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended August 31, 2023

Complete District Mailing Address: 2727 Allen Parkway, Suite 1100, Houston, Texas 77019
District Business Telephone Number: (713) 652-6500
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): May 19, 2022
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Stephen Jester	05/22 - 05/26	\$ 1,792	\$ 79	President
Brad Davidsen	05/20 - 05/24	2,542	54	Vice President
Trisha Bonar	05/20 - 05/24	1,271	26	Secretary
Chris Von Wiesenthal	05/20 - 05/24	1,713	40	Assistant Vice President
Marta Galan	05/22 - 05/26	1,350	47	Assistant Secretary
Consultants				
		<u>Amounts Paid</u>		
Smith, Murdaugh, Little & Bonham, LLP <i>General legal fees</i>	2010	\$ 106,253		Attorney
Inframark, LLC	2000	702,659		Operator
McLennan and Associates, L.P.	2004	43,869		Bookkeeper
Bob Leared Interests	2000	14,510		Tax Collector
Harris County Appraisal District	Legislation	20,768		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2001	2,350		Delinquent Tax Attorney
Pape-Dawson Engineers, Inc	2018	79,630		Engineer
McGrath & Co., PLLC	2016	18,000		Auditor

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