

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2017

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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, 2017, 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, 2017, 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 20, 2017

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

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, 2017. 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 portion of these statements provides 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 first of the government-wide statements is the Statement of Net Position. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets, deferred outflows of resources and liabilities, 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 government-wide portion of 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, 2017**

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 \$18,763,003 as of March 31, 2017. 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, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2017</u>	<u>2016</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 16,089,885	\$ 15,365,000	\$ 724,885
Capital Assets (Net of Accumulated Depreciation)	<u>12,333,592</u>	<u>12,461,632</u>	<u>(128,040)</u>
Total Assets	<u>\$ 28,423,477</u>	<u>\$ 27,826,632</u>	<u>\$ 596,845</u>
Deferred Outflows of Resources	<u>\$ 210,186</u>	<u>\$ 220,195</u>	<u>\$ (10,009)</u>
Bonds Payable	\$ 9,117,030	\$ 10,078,153	\$ 961,123
Other Liabilities	<u>753,630</u>	<u>638,065</u>	<u>(115,565)</u>
Total Liabilities	<u>\$ 9,870,660</u>	<u>\$ 10,716,218</u>	<u>\$ 845,558</u>
Net Position:			
Net Investment in Capital Assets	\$ 3,426,748	\$ 2,603,674	\$ 823,074
Restricted	245,377	311,492	(66,115)
Unrestricted	<u>15,090,878</u>	<u>14,415,443</u>	<u>675,435</u>
Total Net Position	<u>\$ 18,763,003</u>	<u>\$ 17,330,609</u>	<u>\$ 1,432,394</u>

The following table provides a summary of the District's operations for the years ended March 31, 2017, and March 31, 2016.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 2,269,183	\$ 2,364,995	\$ (95,812)
Charges for Services	2,082,263	2,026,328	55,935
Other Revenues	<u>690,762</u>	<u>837,354</u>	<u>(146,592)</u>
Total Revenues	<u>\$ 5,042,208</u>	<u>\$ 5,228,677</u>	<u>\$ (186,469)</u>
Expenses for Services	<u>3,609,814</u>	<u>3,214,411</u>	<u>(395,403)</u>
Change in Net Position	\$ 1,432,394	\$ 2,014,266	\$ (581,872)
Net Position, Beginning of Year	<u>17,330,609</u>	<u>15,316,343</u>	<u>2,014,266</u>
Net Position, End of Year	<u>\$ 18,763,003</u>	<u>\$ 17,330,609</u>	<u>\$ 1,432,394</u>

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2017, were \$8,122,001, an increase of \$914,434 from the prior year.

The General Fund fund balance increased by \$992,448, 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 \$78,014, primarily due to the structure of the District's debt service requirements.

BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the General Fund budget during the current fiscal year. Actual revenues were \$141,875 less than budgeted revenues primarily due to lower than anticipated service revenues. Actual expenditures were \$690,222 less than budgeted expenditures primarily due to lower than anticipated costs in most categories.

CAPITAL ASSETS

Capital assets as of March 31, 2017, total \$12,333,592 (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 wastewater treatment plant improvements, new District office building build-out, Louetta Road lift station rehabilitation costs, erosion repair of sewer treatment plant outfall, and sanitary sewer development for Hereford Oaks Estates.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 233,736	\$ 233,736	\$
Construction in Progress	104,360	591,486	(487,126)
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Equipment	152,094	10,205	141,889
Water System	3,595,912	3,801,159	(205,247)
Wastewater System	7,343,376	6,891,508	451,868
Drainage System	904,114	933,538	(29,424)
Total Net Capital Assets	\$ 12,333,592	\$ 12,461,632	\$ (128,040)

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2017**

LONG-TERM DEBT ACTIVITY

As of March 31, 2017, the District had total bond debt payable of \$9,065,000. The changes in the debt position of the District during the current fiscal year are summarized as follows:

Bond Debt Payable, April 1, 2016	\$ 10,030,000
Less: Bond Principal Paid	<u>965,000</u>
Bond Debt Payable, March 31, 2017	<u>\$ 9,065,000</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, 2017, 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, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>
ASSETS		
Cash	\$ 3,793,408	\$ 102,141
Investments	4,090,351	
Receivables:		
Property Taxes	24,689	
Penalty and Interest on Delinquent Taxes		
Service Accounts	99,427	
Accrued Interest	1,607	
Sales Taxes	52,206	
Due from Other Funds	139,645	80,877
Regional Water Authority Capital Contributions		
Chloramination Credit Receivable		
Prepaid Costs	15,515	
Due from Participant		18,528
Joint Facilities Operating Advance	102,271	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 8,319,119	\$ 201,546
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunded Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 8,319,119	\$ 201,546

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>
\$ 371,462	\$ 4,267,011	\$	\$ 4,267,011
3,245	4,093,596		4,093,596
33,717	58,406		58,406
		9,512	9,512
	99,427		99,427
	1,607		1,607
	52,206		52,206
	220,522	(220,522)	
		6,834,791	6,834,791
		639,286	639,286
	15,515		15,515
	18,528		18,528
	102,271	(102,271)	
		233,736	233,736
		104,360	104,360
		<u>11,995,496</u>	<u>11,995,496</u>
<u>\$ 408,424</u>	<u>\$ 8,929,089</u>	<u>\$ 19,494,388</u>	<u>\$ 28,423,477</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 210,186</u>	<u>\$ 210,186</u>
<u>\$ 408,424</u>	<u>\$ 8,929,089</u>	<u>\$ 19,704,574</u>	<u>\$ 28,633,663</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, 2017

	General Fund	Special Revenue Fund
LIABILITIES		
Accounts Payable	\$ 129,153	\$ 83,953
Accrued Interest Payable		
Due to Other Funds	80,877	
Due to Taxpayers		
Security Deposits	187,288	
Participant Operating Advances		117,593
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 397,318	\$ 201,546
 DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 24,689	\$ - 0 -
 FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 15,515	\$
Operating Advance	102,271	
Restricted for Debt Service		
Assigned to 2018 Budget Deficit	203,186	
Unassigned	7,576,140	
TOTAL FUND BALANCES	\$ 7,897,112	\$ - 0 -
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,319,119	\$ 201,546
 NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Debt Service Fund	Total	Adjustments	Statement of Net Position
\$ 246	\$ 213,352	\$ 305,000	\$ 518,352
		22,741	22,741
139,645	220,522	(220,522)	
9,927	9,927		9,927
	187,288		187,288
	117,593	(102,271)	15,322
		1,005,000	1,005,000
		8,112,030	8,112,030
<u>\$ 149,818</u>	<u>\$ 748,682</u>	<u>\$ 9,121,978</u>	<u>\$ 9,870,660</u>
<u>\$ 33,717</u>	<u>\$ 58,406</u>	<u>\$ (58,406)</u>	<u>\$ - 0 -</u>
\$	\$ 15,515	\$ (15,515)	\$
	102,271	(102,271)	
224,889	224,889	(224,889)	
	203,186	(203,186)	
	7,576,140	(7,576,140)	
<u>\$ 224,889</u>	<u>\$ 8,122,001</u>	<u>\$ (8,122,001)</u>	<u>\$ - 0 -</u>
<u>\$ 408,424</u>	<u>\$ 8,929,089</u>		
		\$ 3,426,748	\$ 3,426,748
		245,377	245,377
		15,090,878	15,090,878
		<u>\$ 18,763,003</u>	<u>\$ 18,763,003</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, 2017**

Total Fund Balances - Governmental Funds	\$	8,122,001
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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.		7,474,077
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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.		12,333,592
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Deferred charges on refunding bonds are amortized over the life of the old debt or new debt, whichever is shorter.		210,186
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Deferred tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District.		67,918
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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:

Accounts Payable	\$ (305,000)		
Accrued Interest Payable	(22,741)		
Bonds Payable	<u>(9,117,030)</u>		<u>(9,444,771)</u>

Total Net Position - Governmental Activities	\$	<u>18,763,003</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, 2017

	General Fund	Special Revenue Fund
REVENUES		
Property Taxes	\$ 1,008,390	\$
Water Service	567,227	
Wastewater Service	268,070	652,295
Regional Water Authority Fees	1,101,250	
Penalty and Interest	10,807	
Tap Connection and Inspection Fees	36,470	
Water Authority Credits	618,098	
Sales Tax Revenues	232,033	
Miscellaneous Revenues	54,904	53
TOTAL REVENUES	\$ 3,897,249	\$ 652,348
EXPENDITURES/EXPENSES		
Service Operations:		
Salaries (including Benefits)	\$ 24,733	\$ 10,587
Professional Fees	57,909	16,165
Contracted Services	239,161	56,579
Purchased Water Service	836,036	586
Purchased Wastewater Service	457,931	
Utilities	102,743	110,815
Regional Water Authority Pumpage Fees	326,208	
Repairs and Maintenance	268,119	118,323
Depreciation		
Other	157,890	213,554
Capital Outlay	434,071	125,739
Debt Service:		
Bond Principal		
Bond Interest		
TOTAL EXPENDITURES/EXPENSES	\$ 2,904,801	\$ 652,348
NET CHANGE IN FUND BALANCES	\$ 992,448	\$ -0-
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - APRIL 1, 2016	6,904,664	
FUND BALANCES/NET POSITION - MARCH 31, 2017	\$ 7,897,112	\$ -0-

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

Debt Service Fund	Total	Adjustments	Statement of Activities
\$ 1,246,333	\$ 2,254,723	\$ 14,460	\$ 2,269,183
	567,227		567,227
	920,365	(567,286)	353,079
	1,101,250		1,101,250
11,831	22,638	1,599	24,237
	36,470		36,470
	618,098	(216,133)	401,965
	232,033		232,033
1,807	56,764		56,764
<u>\$ 1,259,971</u>	<u>\$ 5,809,568</u>	<u>\$ (767,360)</u>	<u>\$ 5,042,208</u>
\$	\$ 35,320	\$	\$ 35,320
5,571	79,645	107,611	187,256
58,459	354,199		354,199
	836,622		836,622
	457,931	(457,931)	
	213,558		213,558
	326,208		326,208
	386,442	7,924	394,366
		554,187	554,187
5,225	376,669		376,669
	559,810	(543,426)	16,384
965,000	965,000	(965,000)	
303,730	303,730	11,315	315,045
<u>\$ 1,337,985</u>	<u>\$ 4,895,134</u>	<u>\$ (1,285,320)</u>	<u>\$ 3,609,814</u>
\$ (78,014)	\$ 914,434	\$ (914,434)	\$
		1,432,394	1,432,394
302,903	7,207,567	10,123,042	17,330,609
<u>\$ 224,889</u>	<u>\$ 8,122,001</u>	<u>\$ 10,641,002</u>	<u>\$ 18,763,003</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, 2017**

Net Change in Fund Balances - Governmental Funds	\$	914,434
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.		14,460
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.		1,599
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.		(216,133)
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.		(554,187)
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.		426,147
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.		965,000
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.		(11,315)
The District records a payable in governmental activities for accrued but unpaid liabilities which will not be paid with current financial resources.		<u>(107,611)</u>
Change in Net Position - Governmental Activities	\$	<u><u>1,432,394</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, 2017

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.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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, 2017

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 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, 2017, the Debt Service Fund owed the General Fund \$139,645 for maintenance tax collections and the General Fund owed the Special Revenue Fund \$80,877 for the District's share of wastewater treatment plant operations.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

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, 2017

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 \$203,186 of its General Fund fund balance to be used to cover the 2018 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, 2017

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, 2017	\$2,275,000	\$6,790,000
Interest Rates	3.73%	2.00% - 3.25%
Maturity Dates – Serially Beginning/Ending	March 1, 2018/2033	March 1, 2018/2037
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.

FAULKY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2017:

	April 1, 2016	Additions	Retirements	March 31, 2017
Bonds Payable	\$ 10,030,000	\$	\$ 965,000	\$ 9,065,000
Unamortized Discounts	(67,262)		(9,378)	(57,884)
Unamortized Premiums	115,415		5,501	109,914
Bonds Payable, Net	<u>\$ 10,078,153</u>	<u>\$ -0-</u>	<u>\$ 961,123</u>	<u>\$ 9,117,030</u>
			Amount Due Within One Year	\$ 1,005,000
			Amount Due After One Year	8,112,030
			Bonds Payable, Net	<u>\$ 9,117,030</u>

As of March 31, 2017, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 1,005,000	\$ 272,889	\$ 1,277,889
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
2023-2027	1,950,000	849,812	2,799,812
2028-2032	2,325,000	513,824	2,838,824
2033-2037	1,720,000	143,985	1,863,985
	<u>\$ 9,065,000</u>	<u>\$ 2,653,828</u>	<u>\$ 11,718,828</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, 2017, the District levied its 2016 ad valorem debt service tax rate of \$0.21 per \$100 of assessed valuation, which resulted in a tax levy of \$1,258,656 on the adjusted taxable valuation of \$599,359,989. 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, 2017

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 \$5,487,011 and the bank balance was \$5,497,097. The District was not exposed to custodial credit risk at year-end.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

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, 2017, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 3,793,408	\$ 1,220,000	\$ 5,013,408
SPECIAL REVENUE FUND	102,141		102,141
DEBT SERVICE FUND	371,462		371,462
TOTAL DEPOSITS	\$ 4,267,011	\$ 1,220,000	\$ 5,487,011

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. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers’ acceptances with limitations, (10)

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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 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 meets the criteria established in GASB Statement No. 79 and 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.

As of March 31, 2017, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 2,870,351	\$ 2,870,351
Certificates of Deposit	1,220,000	1,220,000
<u>DEBT SERVICE FUND</u>		
TexPool	3,245	3,245
TOTAL INVESTMENTS	<u><u>\$ 4,093,596</u></u>	<u><u>\$ 4,093,596</u></u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2017, 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.

FAULKY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2017:

	April 1, 2016	Increases	Decreases	March 31, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 233,736	\$	\$	\$ 233,736
Construction in Progress	<u>591,486</u>	<u>426,147</u>	<u>913,273</u>	<u>104,360</u>
Total Capital Assets Not Being Depreciated	<u>\$ 825,222</u>	<u>\$ 426,147</u>	<u>\$ 913,273</u>	<u>\$ 338,096</u>
Capital Assets Subject to Depreciation				
Building and Equipment	\$ 37,705	\$ 144,765	\$	\$ 182,470
Water System	6,995,258			6,995,258
Wastewater System	12,436,264	768,508		13,204,772
Drainage System	<u>1,324,071</u>			<u>1,324,071</u>
Total Capital Assets Subject to Depreciation	<u>\$ 20,793,298</u>	<u>\$ 913,273</u>	<u>\$ - 0 -</u>	<u>\$ 21,706,571</u>
Accumulated Depreciation				
Building and Equipment	\$ 27,500	\$ 2,876	\$	\$ 30,376
Water System	3,194,099	205,247		3,399,346
Wastewater System	5,544,756	316,640		5,861,396
Drainage System	<u>390,533</u>	<u>29,424</u>		<u>419,957</u>
Total Accumulated Depreciation	<u>\$ 9,156,888</u>	<u>\$ 554,187</u>	<u>\$ - 0 -</u>	<u>\$ 9,711,075</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 11,636,410</u>	<u>\$ 359,086</u>	<u>\$ - 0 -</u>	<u>\$ 11,995,496</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 12,461,632</u>	<u>\$ 785,233</u>	<u>\$ 913,273</u>	<u>\$ 12,333,592</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, 2017, the District levied its 2016 ad valorem maintenance tax rate of \$0.17 per \$100 of assessed valuation, which resulted in a tax levy of \$1,018,912 on the adjusted taxable valuation of \$599,359,989. 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, 2017

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, 2017**

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, 2017

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 75th 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 \$2.40 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 \$2.85 per 1,000 gallons at year-end. As of April 1, 2017, the pumpage fee charged increased to \$2.90 per 1,000 gallons of water pumped from each well and the surface water fee increased to \$3.35 per 1,000 gallons. During the current fiscal year, the District incurred costs of \$326,208 for pumpage fees and \$836,036 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 \$77,315. The 2003 capital contribution balance is \$2,063,034.

FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017

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 \$48,218. The 2005 capital contribution balance is \$1,483,860.

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 \$260,018 including a return of principal of \$79,027. The 2008 capital contribution balance is \$3,287,897.

Future repayments of capital contributions are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 215,046	\$ 352,434	\$ 567,480
2019	226,052	341,419	567,471
2020	237,627	329,844	567,471
2021	249,798	317,670	567,468
2022	262,605	304,863	567,468
2023-2027	1,529,208	1,308,132	2,837,340
2028-2032	1,963,479	873,861	2,837,340
2033-2037	1,728,479	353,434	2,081,913
2038-2039	422,497	32,531	455,028
	<u>\$ 6,834,791</u>	<u>\$ 4,214,188</u>	<u>\$ 11,048,979</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, \$11,573 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, 2017

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

Chloramine Conversion Reimbursement (Continued)

Fiscal Year	Principal	Interest	Total
2018	\$ 12,267	\$ 38,357	\$ 50,624
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
2023-2027	92,540	160,582	253,122
2028-2032	123,840	129,282	253,122
2033-2037	165,725	87,397	253,122
2038-2042	188,029	31,344	219,373
	<u>\$ 639,286</u>	<u>\$ 592,575</u>	<u>\$ 1,231,861</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 \$232,033. 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, 2017

**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, 2017**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 928,400	\$ 1,008,390	\$ 79,990
Water Service	675,000	567,227	(107,773)
Wastewater Service	273,000	268,070	(4,930)
Regional Water Authority Fees	1,231,200	1,101,250	(129,950)
Penalty and Interest	13,500	10,807	(2,693)
Tap Connection and Inspection Fees	36,050	36,470	420
Water Authority Credits	617,874	618,098	224
Sales Tax Revenues	222,000	232,033	10,033
Miscellaneous Revenues	42,100	54,904	12,804
TOTAL REVENUES	\$ 4,039,124	\$ 3,897,249	\$ (141,875)
EXPENDITURES			
Services Operations:			
Salaries (including Benefits)	\$ 30,000	\$ 24,733	\$ 5,267
Professional Fees	119,000	57,909	61,091
Contracted Services	242,500	239,161	3,339
Purchased Water Service/Pumpage Fees	1,169,700	1,162,244	7,456
Purchased Wastewater Service	703,203	457,931	245,272
Utilities	125,220	102,743	22,477
Repairs and Maintenance	306,620	268,119	38,501
Other	161,780	157,890	3,890
Capital Outlay	737,000	434,071	302,929
TOTAL EXPENDITURES	\$ 3,595,023	\$ 2,904,801	\$ 690,222
NET CHANGE IN FUND BALANCE	\$ 444,101	\$ 992,448	\$ 548,347
FUND BALANCE - APRIL 1, 2016	6,904,664	6,904,664	
FUND BALANCE - MARCH 31, 2017	\$ 7,348,765	\$ 7,897,112	\$ 548,347

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, 2017**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Wastewater Service	\$ 808,558	\$ 652,348	\$ (156,210)
EXPENDITURES			
Services Operations:			
Salaries (including Benefits)	\$ 10,650	\$ 10,587	\$ 63
Professional Fees	38,400	16,165	22,235
Contracted Services	56,180	56,579	(399)
Purchased Water Service	660	586	74
Utilities	120,360	110,815	9,545
Repairs and Maintenance	270,000	118,323	151,677
Lab Fees	27,000	49,045	(22,045)
Permits	9,700	10,151	(451)
Sludge Hauling	75,000	63,362	11,638
Chemicals	57,000	79,457	(22,457)
Insurance	15,500	11,303	4,197
Other	108	236	(128)
Capital Outlay	<u>128,000</u>	<u>125,739</u>	<u>2,261</u>
TOTAL EXPENDITURES	<u>\$ 808,558</u>	<u>\$ 652,348</u>	<u>\$ 156,210</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ -0-
FUND BALANCE - APRIL 1, 2016	_____	_____	_____
FUND BALANCE - MARCH 31, 2017	<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, 2017

**FAULKY GULLY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

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
_____	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> X </u>	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 \$2.85 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: \$28.50 Total: \$47.50

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

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	<u> </u>	<u> </u>	x 1.0	<u> </u>
≤¾"	<u>2,369</u>	<u>2,369</u>	x 1.0	<u>2,369</u>
1"	<u>230</u>	<u>230</u>	x 2.5	<u>575</u>
1½"	<u>22</u>	<u>22</u>	x 5.0	<u>110</u>
2"	<u>87</u>	<u>87</u>	x 8.0	<u>696</u>
3"	<u> </u>	<u> </u>	x 15.0	<u> </u>
4"	<u> </u>	<u> </u>	x 25.0	<u> </u>
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"	<u> </u>	<u> </u>	x 80.0	<u> </u>
10"	<u> </u>	<u> </u>	x 115.0	<u> </u>
Total Water Connections	<u><u>2,709</u></u>	<u><u>2,709</u></u>		<u><u>3,800</u></u>
Total Wastewater Connections	<u><u>2,607</u></u>	<u><u>2,607</u></u>	x 1.0	<u><u>2,607</u></u>

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

Gallons pumped into system:	133,209,000	Water Accountability Ratio: 91.4% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	391,496,000	
Gallons purchased:	295,552,000	From: North Harris County Regional Water Authority
Gallons sold:	373,000	To: Pitcairn Water Supply Corporation

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2017**

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.

**FAULKNEY GULLY MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2017**

PERSONNEL EXPENDITURES (Including Benefits)	\$ 24,733
PROFESSIONAL FEES:	
Auditing	\$ 15,250
Engineering	42,059
Financial Advisor	600
TOTAL PROFESSIONAL FEES	<u>\$ 57,909</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 836,036
Purchased Wastewater Service	457,931
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 1,293,967</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 14,972
Operations and Billing	157,039
TOTAL CONTRACTED SERVICES	<u>\$ 172,011</u>
UTILITIES:	
Electricity	\$ 96,717
Telephone	6,026
TOTAL UTILITIES	<u>\$ 102,743</u>
REPAIRS AND MAINTENANCE	<u>\$ 268,119</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 25,775
Election Costs	1,071
Insurance	16,705
Office Supplies and Postage	9,242
Payroll Taxes	5,151
Travel and Meetings	18,206
Other	17,319
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 93,469</u>
CAPITAL OUTLAY	<u>\$ 434,071</u>
TAP CONNECTIONS	<u>\$ 5,550</u>
SECURITY	<u>\$ 67,150</u>
OTHER EXPENDITURES:	
Chemicals	\$ 9,760
Laboratory Fees	11,053
Permit Fees	6,573
Reconnection Fees	16,800
Inspection Fees	10,460
Regional Water Authority Pumpage Fees	326,208
Regulatory Assessment	4,225
TOTAL OTHER EXPENDITURES	<u>\$ 385,079</u>
TOTAL EXPENDITURES	<u><u>\$ 2,904,801</u></u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
INVESTMENTS
MARCH 31, 2017**

<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	\$ 2,870,351	\$
Certificate of Deposit	XXXX5334	0.50%	05/22/17	245,000	541
Certificate of Deposit	XXXX1435	0.35%	05/22/17	240,000	299
Certificate of Deposit	XXXX8427	0.40%	08/23/17	245,000	97
Certificate of Deposit	XXXX6868	0.45%	09/19/17	245,000	36
Certificate of Deposit	XXXX1594	0.50%	04/24/17	245,000	634
TOTAL GENERAL FUND				<u>\$ 4,090,351</u>	<u>\$ 1,607</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 3,245	\$ -0-
TOTAL - ALL FUNDS				<u>\$ 4,093,596</u>	<u>\$ 1,607</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2017**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
APRIL 1, 2016	\$	17,959	\$	25,987
Adjustments to Beginning				
Balance		<u>(3,792)</u>	\$	<u>14,167</u>
			<u>(4,593)</u>	\$
				21,394
Original 2016 Tax Levy	\$	998,782	\$	1,233,790
Adjustment to 2016 Tax Levy		<u>20,130</u>	<u>1,018,912</u>	<u>24,866</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	1,033,079	\$
				1,280,050
TAX COLLECTIONS:				
Prior Years	\$	11,117	\$	14,408
Current Year		<u>997,273</u>	<u>1,008,390</u>	<u>1,231,925</u>
				<u>1,246,333</u>
TAXES RECEIVABLE -				
MARCH 31, 2017		<u>\$</u>	<u>24,689</u>	<u>\$</u>
				<u>33,717</u>
TAXES RECEIVABLE BY				
YEAR:				
2016		\$	21,639	\$
2015			1,367	26,731
2014			340	1,655
2013			454	809
2012			358	1,263
2011			124	1,092
2010			107	414
2009 and prior			<u>300</u>	<u>391</u>
				<u>1,362</u>
TOTAL		<u>\$</u>	<u>24,689</u>	<u>\$</u>
				<u>33,717</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2017**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
PROPERTY VALUATIONS:				
Land	\$ 134,571,455	\$ 132,370,320	\$ 128,259,928	\$ 112,777,119
Improvements	589,056,539	535,459,233	480,357,696	442,049,389
Personal Property	19,097,547	18,751,047	17,401,266	18,339,012
Exemptions	<u>(143,365,552)</u>	<u>(121,176,210)</u>	<u>(113,199,267)</u>	<u>(104,692,090)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 599,359,989</u>	<u>\$ 565,404,390</u>	<u>\$ 512,819,623</u>	<u>\$ 468,473,430</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.21	\$ 0.23	\$ 0.345	\$ 0.387
Maintenance	<u>0.17</u>	<u>0.19</u>	<u>0.145</u>	<u>0.139</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.38</u>	<u>0.42</u>	<u>0.490</u>	<u>0.526</u>
ADJUSTED TAX LEVY*	<u>\$ 2,277,568</u>	<u>\$ 2,375,411</u>	<u>\$ 2,513,648</u>	<u>\$ 2,464,961</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>97.88 %</u>	<u>99.87 %</u>	<u>99.95 %</u>	<u>99.93 %</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, 2017**

REFUNDING SERIES - 2012

Due During Fiscal Years Ending March 31	Principal Due March 1	Interest Due September 1/ March 1	Total
2018	\$ 110,000	\$ 84,858	\$ 194,858
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>\$ 2,275,000</u>	<u>\$ 785,352</u>	<u>\$ 3,060,352</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2017**

REFUNDING SERIES - 2015

Due During Fiscal Years Ending March 31	Principal Due March 1	Interest Due September 1/ March 1	Total
2018	\$ 895,000	\$ 188,031	\$ 1,083,031
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>\$ 6,790,000</u>	<u>\$ 1,868,476</u>	<u>\$ 8,658,476</u>

See accompanying independent auditor's report.

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**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2017**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	\$ 1,005,000	\$ 272,889	\$ 1,277,889
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>\$ 9,065,000</u>	<u>\$ 2,653,828</u>	<u>\$ 11,718,828</u>

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2017**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2016
Faulkey Gully Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2008	\$ 3,975,000	\$ 100,000
Faulkey Gully Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2012	3,430,000	2,380,000
Faulkey Gully Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2015	<u>7,665,000</u>	<u>7,550,000</u>
TOTAL	<u><u>\$ 15,070,000</u></u>	<u><u>\$ 10,030,000</u></u>
 Bond Authority:		<u>Combination Tax and Refunding Bonds</u>
Amount Authorized by Voters		\$ 49,440,000
Amount Issued		<u>32,290,000</u>
Remaining to be Issued		<u><u>\$ 17,150,000</u></u>
 Debt Service Fund cash and investment balances as of March 31, 2017:		<u><u>\$ 374,707</u></u>
 Average annual debt service payment (principal and interest) for remaining term of all debt:		<u><u>\$ 585,941</u></u>

See Note 3 for interest rate, 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, 2017</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 100,000	\$ 4,125	\$ -0-	Wells Fargo Bank, N.A.
	105,000	88,774	2,275,000	Branch Banking and Trust Company Charlotte, N.C.
	<u>760,000</u>	<u>210,831</u>	<u>6,790,000</u>	Amegy Bank, N.A.
<u>\$ - 0 -</u>	<u>\$ 965,000</u>	<u>\$ 303,730</u>	<u>\$ 9,065,000</u>	

See accompanying independent auditor's report.

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

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 1,008,390	\$ 1,078,446	\$ 732,439
Water Service	567,227	631,543	630,430
Wastewater Service	268,070	272,708	270,398
Regional Water Authority Fees	1,101,250	1,005,463	1,033,505
Penalty and Interest	10,807	13,249	11,817
Tap Connection and Inspection Fees	36,470	19,030	41,105
Water Authority Credits	618,098	618,098	618,098
Sales Tax Revenues	232,033	227,978	240,747
Sale of Land		147,849	
Miscellaneous Revenues	54,904	48,106	44,528
TOTAL REVENUES	\$ 3,897,249	\$ 4,062,470	\$ 3,623,067
EXPENDITURES			
Salaries (including Benefits)	\$ 24,733	\$ 25,920	\$ 26,522
Professional Fees	57,909	73,917	64,104
Contracted Services	239,161	237,798	222,005
Purchased Water Service	836,036	674,073	625,560
Purchased Wastewater Service	457,931	448,128	394,741
Utilities	102,743	122,469	127,860
Repairs and Maintenance	268,119	141,519	204,389
Regional Water Authority Pumpage Fees	326,208	307,416	317,124
Other	157,890	159,017	165,998
Capital Outlay	434,071	266,733	704,615
TOTAL EXPENDITURES	\$ 2,904,801	\$ 2,456,990	\$ 2,852,918
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 992,448	\$ 1,605,480	\$ 770,149
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ - 0 -	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 992,448	\$ 1,605,480	\$ 770,149
BEGINNING FUND BALANCE	6,904,664	5,299,184	4,529,035
ENDING FUND BALANCE	\$ 7,897,112	\$ 6,904,664	\$ 5,299,184

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2014	2013	2017	2016	2015	2014	2013
\$ 648,751	\$ 597,296	25.7 %	26.6 %	20.3 %	18.3 %	18.1 %
652,666	650,765	14.6	15.5	17.4	18.4	19.6
270,904	269,850	6.9	6.7	7.5	7.6	8.1
1,002,860	992,739	28.3	24.8	28.5	28.3	29.9
11,258	10,970	0.3	0.3	0.3	0.3	0.3
137,825	19,936	0.9	0.5	1.1	3.9	0.6
559,574	547,869	15.9	15.2	17.1	15.8	16.5
217,517	186,698	6.0	5.6	6.6	6.1	5.6
45,099	42,354	1.4	1.2	1.2	1.3	1.3
<u>\$ 3,546,454</u>	<u>\$ 3,318,477</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 26,082	\$ 25,032	0.6 %	0.6 %	0.7 %	0.7 %	0.8 %
65,263	78,784	1.5	1.8	1.8	1.8	2.4
224,170	221,162	6.1	5.9	6.1	6.3	6.7
695,438	748,301	21.5	16.6	17.3	19.6	22.5
459,877	485,321	11.8	11.0	10.9	13.0	14.6
119,198	117,353	2.6	3.0	3.5	3.4	3.5
179,932	268,144	6.9	3.5	5.6	5.1	8.1
276,750	258,874	8.4	7.6	8.8	7.8	7.8
202,271	148,180	4.1	3.9	4.6	5.7	4.5
45,072	184,977	11.1	6.6	19.4	1.3	5.6
<u>\$ 2,294,053</u>	<u>\$ 2,536,128</u>	<u>74.6 %</u>	<u>60.5 %</u>	<u>78.7 %</u>	<u>64.7 %</u>	<u>76.5 %</u>
<u>\$ 1,252,401</u>	<u>\$ 782,349</u>	<u>25.4 %</u>	<u>39.5 %</u>	<u>21.3 %</u>	<u>35.3 %</u>	<u>23.5 %</u>
<u>\$ (275,000)</u>	<u>\$ (250,000)</u>					
\$ 977,401	\$ 532,349					
<u>3,551,634</u>	<u>3,019,285</u>					
<u>\$ 4,529,035</u>	<u>\$ 3,551,634</u>					

See accompanying independent auditor's report.

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

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 1,246,333	\$ 1,328,362	\$ 1,748,081
Penalty and Interest	11,831	18,090	14,305
Miscellaneous Revenues	1,807	803	1,334
TOTAL REVENUES	\$ 1,259,971	\$ 1,347,255	\$ 1,763,720
EXPENDITURES			
Other Expenditures	\$ 68,255	\$ 71,068	\$ 67,240
Debt Service Principal	965,000	935,000	1,565,000
Debt Service Interest and Fees	304,730	321,925	482,566
Bond Issuance Costs			274,400
TOTAL EXPENDITURES	\$ 1,337,985	\$ 1,327,993	\$ 2,389,206
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (78,014)	\$ 19,262	\$ (625,486)
OTHER FINANCING SOURCES (USES)			
Transfers In	\$	\$	\$
Long-Term Debt Issued			7,665,000
Transfer to Refunded Bond Escrow Agent			(7,472,730)
Bond Discount			(63,725)
Bond Premium			121,005
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ - 0 -	\$ 249,550
NET CHANGE IN FUND BALANCE	\$ (78,014)	\$ 19,262	\$ (375,936)
BEGINNING FUND BALANCE	302,903	283,641	659,577
ENDING FUND BALANCE	\$ 224,889	\$ 302,903	\$ 283,641
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,709	2,708	2,705
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,607	2,606	2,603

See accompanying independent auditor's report.

		Percentage of Total Revenue				
<u>2014</u>	<u>2013</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 1,809,289	\$ 1,824,662	99.0 %	98.6 %	99.1 %	98.7 %	98.8 %
21,325	20,116	0.9	1.3	0.8	1.2	1.1
<u>2,299</u>	<u>1,592</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
\$ <u>1,832,913</u>	\$ <u>1,846,370</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 69,423	\$ 73,202	5.4 %	5.3 %	3.8 %	3.8 %	4.0 %
1,485,000	1,435,000	76.6	69.4	88.7	81.0	77.7
533,535	594,869	24.2	23.9	27.4	29.1	32.2
				15.6		
\$ <u>2,087,958</u>	\$ <u>2,103,071</u>	<u>106.2 %</u>	<u>98.6 %</u>	<u>135.5 %</u>	<u>113.9 %</u>	<u>113.9 %</u>
\$ <u>(255,045)</u>	\$ <u>(256,701)</u>	<u>(6.2) %</u>	<u>1.4 %</u>	<u>(35.5) %</u>	<u>(13.9) %</u>	<u>(13.9) %</u>
\$ 275,000	\$ 250,000					
<u>\$ 275,000</u>	<u>\$ 250,000</u>					
\$ 19,955	\$ (6,701)					
<u>639,622</u>	<u>646,323</u>					
\$ <u>659,577</u>	\$ <u>639,622</u>					
<u>2,694</u>	<u>2,690</u>					
<u>2,593</u>	<u>2,591</u>					

See accompanying independent auditor's report.

**FAULKEY GULLY MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2017**

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

District Telephone Number - (281) 320-2470

Board Members	Term of Office (Elected or Appointed)	Fees of office for the year ended <u>March 31, 2017</u>	Expense reimbursements for the year ended <u>March 31, 2017</u>	<u>Title</u>
Kenneth R. Kana	05/15 05/19 (Elected)	\$ 6,975	\$ 4,416	President
J. Douglas Allen	05/17 05/21 (Elected)	\$ -0-	\$ -0-	Vice President/ Assistant Secretary
Lee W. Evey	05/15 05/19 (Elected)	\$ 5,550	\$ 2,408	Vice President/ Assistant Secretary
Bill F. Cheves	05/15 05/19 (Elected)	\$ 5,700	\$ 2,660	Secretary
John M. Prewitt	05/17 05/21 (Elected)	\$ -0-	\$ -0-	Treasurer/ Investment Officer
Russell E. Mechler	05/13 05/17 (Elected)	\$ 3,850	\$ 2,858	Secretary/ Assistant Vice President
Alexander W. Schultz	03/14 05/17 (Appointed)	\$ 5,550	\$ 2,738	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, 2017**

Employee	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2017 District</u>	<u>Fees for the year ended March 31, 2017 STP</u>	<u>Title</u>
Barbara J. Evans	11/01/79	\$ 24,733	\$ 9,828	District Administrator
Consultants:				
Coats Rose, P.C.	09/01/80	\$ 56,221	\$ 7,265	General Counsel
McCall Gibson Swedlund Barfoot PLLC	09/17/87	\$ 15,250 \$ 3,750	\$ 2,500	Auditor AUP Services
L&S District Services, LLC	04/15/99	\$ 14,972	\$ 3,778	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/15/96	\$ 2,740	\$ -0-	Delinquent Tax Attorney
A&S Engineers, Inc.	06/13/13	\$ 127,509	\$ 74,693	Engineer
The GMS Group, LLC	11/29/95	\$ 600	\$ -0-	Financial Advisor
Eagle Water Management, Inc.	02/19/09	\$ 344,028	\$ 145,849	Operator
Thomas W. Lee, RTA	11/20/79	\$ 43,015	\$ -0-	Tax Assessor/ Collector

See accompanying independent auditor's report.

