

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

AUGUST 31, 2016

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ANNUAL FINANCIAL REPORT

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TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-11
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	13-14
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	15
NOTES TO THE FINANCIAL STATEMENTS	16-29
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	31
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	33-35
GENERAL FUND EXPENDITURES	36-37
INVESTMENTS	38
TAXES LEVIED AND RECEIVABLE	39-40
LONG-TERM DEBT SERVICE REQUIREMENTS	41-43
CHANGE IN LONG-TERM BOND DEBT	44-45
COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	46-49
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	50-51

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 304
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 304 (the "District"), as of and for the year ended August 31, 2016, 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 August 31, 2016, 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 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.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2016**

Management's discussion and analysis of Harris County Municipal Utility District No. 304's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2016. 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. This is the District-wide statement of its financial position presenting information that includes all of the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The 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, operating costs and general expenditures. 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. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2016**

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 the 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"). The budgetary comparison schedule is included as RSI for the General 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, liabilities exceeded assets and deferred outflows of resources by \$593,765 as of August 31, 2016. A portion of the District's net position reflects its net investment in capital assets (land, water and wastewater systems, 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:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2016	2015	Change Positive (Negative)
Current and Other Assets	\$ 7,190,118	\$ 7,928,542	\$ (738,424)
Capital Assets (Net of Accumulated Depreciation)	10,026,410	8,722,008	1,304,402
Total Assets	\$ 17,216,528	\$ 16,650,550	\$ 565,978
Deferred Outflows of Resources	\$ 344,158	\$ -0-	\$ 344,158
Bonds Payable	\$ 17,568,525	\$ 17,370,238	\$ (198,287)
Other Liabilities	585,926	604,647	18,721
Total Liabilities	\$ 18,154,451	\$ 17,974,885	\$ (179,566)
Net Investment in Capital Assets	\$ (7,178,821)	\$ (7,627,226)	\$ 448,405
Restricted	1,445,892	1,404,569	41,323
Unrestricted	5,139,164	4,898,322	240,842
Total Net Position	\$ (593,765)	\$ (1,324,335)	\$ 730,570

The following table provides a summary of the District's operations for the years ended August 31, 2016, and August 31, 2015.

	Summary of Changes in the Statement of Activities		
	2016	2015	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,615,353	\$ 1,457,520	\$ 157,833
Charges for Services	1,631,122	1,519,545	111,577
Other Revenues	221,551	72,364	149,187
Total Revenues	\$ 3,468,026	\$ 3,049,429	\$ 418,597
Expenses for Services	2,737,456	2,641,291	(96,165)
Change in Net Position	\$ 730,570	\$ 408,138	\$ 322,432
Net Position, Beginning of Year	(1,324,335)	(1,732,473)	408,138
Net Position, End of Year	\$ (593,765)	\$ (1,324,335)	\$ 730,570

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of August 31, 2016, were \$6,665,241, a decrease of \$782,292 from the prior year.

The General Fund fund balance increased by \$186,712, primarily due to service and tax revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$32,864, primarily due to the structure of the District's outstanding debt and the sale of the Series 2016 Refunding bonds.

The Capital Projects Fund fund balance decreased by \$1,001,868, primarily due to a reimbursement to the developer from bond proceeds which were received in a prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$395,653 more than budgeted revenues primarily due to higher than anticipated property tax revenues. Actual expenditures were \$287,816 less than budgeted expenditures primarily due to lower than anticipated capital outlay due to the timing of projects.

CAPITAL ASSETS

Capital assets as of August 31, 2016, total \$10,026,410 (net of accumulated depreciation) and include land, water and wastewater systems, and recreational facilities.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2016	2015	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 2,461,721	\$ 2,461,721	\$
Construction in Progress	176,532	182,709	(6,177)
Capital Assets, Net of Accumulated Depreciation:			
Recreational Facilities	1,130,891	1,200,410	(69,519)
Water System	2,358,545	1,934,236	424,309
Wastewater System	3,113,152	2,942,932	170,220
Drainage System	785,569		785,569
Total Net Capital Assets	<u>\$ 10,026,410</u>	<u>\$ 8,722,008</u>	<u>\$ 1,304,402</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2016**

LONG-TERM DEBT ACTIVITY

At year end, the District had total bond debt payable of \$16,930,000. The changes in the debt position of the District during the fiscal year ended August 31, 2016, are summarized as follows:

Bond Debt Payable, September 1, 2015	\$ 17,380,000
Add: Bond Sale - Series 2016 Refunding	8,030,000
Less: Bond Principal Paid and Refunded	<u>8,480,000</u>
Bond Debt Payable, August 31, 2016	<u>\$ 16,930,000</u>

Series 2012 and 2016 refunding bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corp and Build America Mutual Assurance Company, respectively. These ratings are as of August 31, 2016, and reflect any changes 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 Harris County Municipal Utility District No. 304, c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056-3012.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
AUGUST 31, 2016

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 508,596	\$ 65,597
Investments	4,744,471	1,316,491
Receivables:		
Property Taxes	9,336	45,647
Penalty and Interest on Delinquent Taxes		
Service Accounts	182,346	
Accrued Interest	9,380	2,387
Due from Other Funds	5,037	
Prepaid Costs	10,251	
Advance for Regional Water Authority	4,914	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 5,474,331	\$ 1,430,122
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunded Bonds	\$ - 0 -	\$ - 0 -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 5,474,331	\$ 1,430,122

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 536	\$ 574,729	\$	\$ 574,729
212,399	6,273,361		6,273,361
	54,983		54,983
		27,027	27,027
	182,346		182,346
	11,767		11,767
	5,037	(5,037)	
	10,251	50,740	60,991
	4,914		4,914
		2,461,721	2,461,721
		176,532	176,532
		7,388,157	7,388,157
<u>\$ 212,935</u>	<u>\$ 7,117,388</u>	<u>\$ 10,099,140</u>	<u>\$ 17,216,528</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 344,158</u>	<u>\$ 344,158</u>
<u>\$ 212,935</u>	<u>\$ 7,117,388</u>	<u>\$ 10,443,298</u>	<u>\$ 17,560,686</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
AUGUST 31, 2016

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 153,124	\$
Due to Developer		
Due to Other Funds		5,037
Due to Taxpayers		6,220
Security Deposits	232,783	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 385,907	\$ 11,257
 DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 9,336	\$ 45,647
 FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 10,251	\$
Advance For Regional Water Authority	4,914	
Restricted for Authorized Construction		
Restricted for Debt Service		1,373,218
Unassigned	5,063,923	
TOTAL FUND BALANCES	\$ 5,079,088	\$ 1,373,218
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,474,331	\$ 1,430,122
 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.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 153,124	\$	\$ 153,124
		193,799	193,799
	5,037	(5,037)	
	6,220		6,220
	232,783		232,783
		495,000	495,000
		17,073,525	17,073,525
<u>\$ -0-</u>	<u>\$ 397,164</u>	<u>\$ 17,757,287</u>	<u>\$ 18,154,451</u>
<u>\$ -0-</u>	<u>\$ 54,983</u>	<u>\$ (54,983)</u>	<u>\$ -0-</u>
\$	\$ 10,251	\$ (10,251)	\$
	4,914	(4,914)	
212,935	212,935	(212,935)	
	1,373,218	(1,373,218)	
	5,063,923	(5,063,923)	
<u>\$ 212,935</u>	<u>\$ 6,665,241</u>	<u>\$ (6,665,241)</u>	<u>\$ - 0 -</u>
<u>\$ 212,935</u>	<u>\$ 7,117,388</u>		
		\$ (7,178,821)	\$ (7,178,821)
		1,445,892	1,445,892
		5,139,164	5,139,164
		<u>\$ (593,765)</u>	<u>\$ (593,765)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2016**

Total Fund Balances - Governmental Funds	\$	6,665,241
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.		344,158
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Prepaid bond insurance in governmental activities is not a current financial resource and, therefore, is not reported as an asset in the governmental funds.		50,740
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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.		10,026,410
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Deferred tax revenues and penalty and interest receivable on delinquent taxes for the 2015 and prior tax levies became part of recognized revenue in the governmental activities of the District.		82,010
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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:

Due to Developer	\$ (193,799)	
Bonds Payable	<u>(17,568,525)</u>	<u>(17,762,324)</u>
Total Net Position - Governmental Activities		<u>\$ (593,765)</u>

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED AUGUST 31, 2016

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 516,375	\$ 1,091,504
Water Service	518,230	
Wastewater Service	608,022	
Regional Water Authority Fees	373,921	
Penalty and Interest	54,805	9,279
Tap Connection and Inspection Fees	62,490	
Miscellaneous Revenues	62,465	7,022
TOTAL REVENUES	\$ 2,196,308	\$ 1,107,805
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 171,962	\$ 2,876
Contracted Services	114,037	46,970
Utilities	132,525	
Regional Water Authority Assessments	432,162	
Repairs and Maintenance	319,323	
Depreciation		
Other	401,763	6,818
Capital Outlay	331,762	
Debt Service:		
Payment to Refunded Bond Escrow Agent		11,000
Bond Issuance Costs		338,847
Bond Principal		490,000
Bond Interest		522,914
TOTAL EXPENDITURES/EXPENSES	\$ 1,903,534	\$ 1,419,425
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 292,774	\$ (311,620)
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (256,062)	\$
Proceeds from Issuance of Long-Term Debt		8,030,000
Transfer to Refunded Bond Escrow Agent		(8,164,604)
Bond Premium		479,088
Developer Contributions	150,000	
TOTAL OTHER FINANCING SOURCES (USES)	\$ (106,062)	\$ 344,484
NET CHANGE IN FUND BALANCES	\$ 186,712	\$ 32,864
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - SEPTEMBER 1, 2015	4,892,376	1,340,354
FUND BALANCES/NET POSITION - AUGUST 31, 2016	\$ 5,079,088	\$ 1,373,218

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,607,879	\$ 7,474	\$ 1,615,353
	518,230		518,230
	608,022		608,022
	373,921		373,921
	64,084	4,375	68,459
	62,490		62,490
2,064	71,551	150,000	221,551
<u>\$ 2,064</u>	<u>\$ 3,306,177</u>	<u>\$ 161,849</u>	<u>\$ 3,468,026</u>
\$ 2,767	\$ 177,605	\$	\$ 177,605
	161,007		161,007
	132,525		132,525
	432,162		432,162
	319,323		319,323
		284,172	284,172
415	408,996		408,996
1,256,812	1,588,574	(1,588,574)	
	11,000	(11,000)	
	338,847	(51,732)	287,115
	490,000	(490,000)	
	522,914	11,637	534,551
<u>\$ 1,259,994</u>	<u>\$ 4,582,953</u>	<u>\$ (1,845,497)</u>	<u>\$ 2,737,456</u>
<u>\$ (1,257,930)</u>	<u>\$ (1,276,776)</u>	<u>\$ 2,007,346</u>	<u>\$ 730,570</u>
\$ 256,062	\$	\$	\$
	8,030,000	(8,030,000)	
	(8,164,604)	8,164,604	
	479,088	(479,088)	
	150,000	(150,000)	
<u>\$ 256,062</u>	<u>\$ 494,484</u>	<u>\$ (494,484)</u>	<u>\$ -0-</u>
\$ (1,001,868)	\$ (782,292)	\$ 782,292	\$
		730,570	730,570
1,214,803	7,447,533	(8,771,868)	(1,324,335)
<u>\$ 212,935</u>	<u>\$ 6,665,241</u>	<u>\$ (7,259,006)</u>	<u>\$ (593,765)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016**

Net Change in Fund Balances - Governmental Funds \$ (782,292)

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. 7,474

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. 4,375

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. (284,172)

Governmental funds report capital 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. 1,588,574

Governmental funds report bond premiums as other financing sources in the year paid. However, in the Statement of Net Position, the bond premium is amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities. (427,356)

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. 490,000

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. (11,637)

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position. (8,030,000)

Governmental funds report the payment to the refunded bond escrow agent as an other financing use. However, the refunding of outstanding bonds decreases long-term liabilities in the Statement of Net Position. 8,175,604

Change in Net Position - Governmental Activities \$ 730,570

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 304, located in Harris County, Texas (the “District”) was created by an Order of the Texas Water Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”), effective May 1, 1985. 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, wastewater service and storm sewer drainage for residents of the District.

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.

Financial Statement Presentation

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

GASB Codification 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- 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 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 to obtain net total revenues and expenses in the government-wide Statement of Activities.

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 these funds to be major funds.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

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

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.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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 collectable 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 collectable 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. At August 31, 2016, the Debt Service Fund owed the General Fund \$5,037 for maintenance tax collections.

Capital Assets

Capital assets, which include property, plant, 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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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 \$5,000 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
Park and Recreation Facilities	5-20
Water, Sewer, Drainage Systems	10-45

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

Directors are considered to be “employees” for federal payroll tax purposes only. The District also has 4 part-time employees. Payments are made into the social security system for employees and directors, although a pension plan has not been established for anyone.

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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 are classified using 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 and does not have any assigned fund balances.

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.

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 3. LONG-TERM DEBT

The following is a summary of transactions regarding bonds payable for the year ended August 31, 2016:

	September 1, 2015	Additions	Retirements	August 31, 2016
Bonds Payable	\$ 17,380,000	\$ 8,030,000	\$ 8,480,000	\$ 16,930,000
Unamortized Discounts	(298,776)		(200,446)	(98,330)
Unamortized Premiums	289,014	479,088	31,247	736,855
Bonds Payable, Net	\$ 17,370,238	\$ 8,509,088	\$ 8,310,801	\$ 17,568,525
		Amount Due Within One Year		\$ 495,000
		Amount Due After One Year		17,073,525
		Bonds Payable, Net		\$ 17,568,525

	Refunding Series 2012	Refunding Series 2016
Amount Outstanding - August 31, 2016	\$ 9,050,000	\$ 7,880,000
Interest Rates	3.00% – 4.00%	2.00% – 4.00%
Maturity Dates-Beginning/Ending	September 1, 2017/2031	September 1, 2017/2035
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2020*	September 1, 2023*

* Or on any date thereafter, in whole or in part, at the option of the District, at par plus accrued interest to the date of redemption.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 3. LONG-TERM DEBT (Continued)

As of August 31, 2016, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 495,000	\$ 647,550	\$ 1,142,550
2018	645,000	634,500	1,279,500
2019	670,000	617,000	1,287,000
2020	685,000	596,900	1,281,900
2021	710,000	571,400	1,281,400
2022-2026	3,965,000	2,433,900	6,398,900
2027-2031	4,815,000	1,582,200	6,397,200
2032-2035	4,945,000	504,800	5,449,800
	<u>\$ 16,930,000</u>	<u>\$ 7,588,250</u>	<u>\$ 24,518,250</u>

As of August 31, 2016, The District had authorized but unissued bonds in the amount of \$8,101,760 for utility facilities and \$29,272,627 for refunding bonds. 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.

For the 2015 tax year, the District levied an ad valorem debt service tax rate of \$0.55 per \$100 of assessed valuation, which resulted in a tax levy of \$1,101,220 on the adjusted taxable valuation of \$200,222,741. The bond orders 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. The District's tax calendar is as follows:

- Levy Date - October 1 or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information is of the general type included in 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.

The bond orders state that the District should 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.

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 \$5,859,729 and the bank balance was \$5,699,156. The District was not exposed to custodial credit risk at year end.

The carrying value of the deposits is included in the Governmental Funds Balance Sheet and the Statement of Net Position at August 31, 2016, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 508,596	\$ 3,995,000	\$ 4,503,596
DEBT SERVICE FUND	65,597	1,290,000	1,355,597
CAPITAL PROJECTS FUND	<u>536</u>	<u> </u>	<u>536</u>
TOTAL DEPOSITS	<u>\$ 574,729</u>	<u>\$ 5,285,000</u>	<u>\$ 5,859,729</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

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) 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. This investment is recorded at amortized cost. 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. The fair value of the District's position in the pool is the same as the value of pool shares.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of August 31, 2016, 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	\$ 749,471	\$ 749,471
Certificates of Deposit	3,995,000	3,995,000
<u>DEBT SERVICE FUND</u>		
TexPool	26,491	26,491
Certificates of Deposit	1,290,000	1,290,000
<u>CAPITAL PROJECTS FUND</u>		
TexPool	212,399	212,399
TOTAL INVESTMENTS	<u>\$6,273,361</u>	<u>\$ 6,273,361</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At August 31, 2016, the District's investment in TexPool was rated "AAAm" by Standard and Poor's.

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.

Restrictions

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. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2016, is as follows:

	September 1, 2015	Increases	Decreases	August 31, 2016
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 2,461,721	\$	\$	\$ 2,461,721
Construction in Progress	<u>182,709</u>	<u>1,588,574</u>	<u>1,594,751</u>	<u>176,532</u>
Total Capital Assets Not Being Depreciated	<u>\$ 2,644,430</u>	<u>\$ 1,588,574</u>	<u>\$ 1,594,751</u>	<u>\$ 2,638,253</u>
Capital Assets Subject to Depreciation				
Recreational Facilities	\$ 1,476,327	\$	\$	\$ 1,476,327
Water System	3,346,204	513,320		3,859,524
Wastewater System	5,218,467	288,086		5,506,553
Drainage System	<u> </u>	<u>793,345</u>	<u> </u>	<u>793,345</u>
Total Capital Assets Subject to Depreciation	<u>\$ 10,040,998</u>	<u>\$ 1,594,751</u>	<u>\$ - 0 -</u>	<u>\$ 11,635,749</u>
Less Accumulated Depreciation				
Recreational Facilities	\$ 275,917	\$ 69,519	\$	\$ 345,436
Water System	1,411,968	89,011		1,500,979
Wastewater System	2,275,535	117,866		2,393,401
Drainage System	<u> </u>	<u>7,776</u>	<u> </u>	<u>7,776</u>
Total Accumulated Depreciation	<u>\$ 3,963,420</u>	<u>\$ 284,172</u>	<u>\$ - 0 -</u>	<u>\$ 4,247,592</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 6,077,578</u>	<u>\$ 1,310,579</u>	<u>\$ - 0 -</u>	<u>\$ 7,388,157</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,722,008</u>	<u>\$ 2,899,153</u>	<u>\$ 1,594,751</u>	<u>\$ 10,026,410</u>

The District has financed drainage facilities which have been conveyed to other entities for maintenance.

NOTE 7. MAINTENANCE TAX

On January 20, 1996, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.26 per \$100 of assessed valuation, which resulted in a tax levy of \$520,576 on the adjusted taxable valuation of \$200,222,741 for the 2015 tax year.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 8. WASTE DISPOSAL AGREEMENT

On May 6, 1985, General Homes Corporation, on behalf of the District, entered into a waste disposal agreement with Harris County Municipal Utility District No. 279 (“District No. 279”) and Rankin Road West Municipal Utility District (“Rankin Road West”) providing for the construction and operation of a regional sewage treatment plant. District No. 279 has now been dissolved and a portion of the land previously within District No. 279 has been annexed into the District. The agreement was amended in July, 1998, to reflect that fact. The amended agreement provides that the participants will share the costs of operating the plant based upon their percentage of capacity. A 650,000 gallons-per-day initial phase of the plant was constructed in 1986. Rankin Road West was not a participant in the initial phase of the plant. The amended agreement provides that Rankin Road West has no right to utilize any of the capacity in the initial phase unless agreed to by the District. The agreement allows for future expansion of the plant up to 1,000,000 gallons-per-day, with Rankin Road West being allocated 400,000 gallons-per-day and the District being allocated 600,000 gallons-per-day of such ultimate capacity. The term of the amended agreement is 50 years commencing in July, 1998.

NOTE 9. EMERGENCY WATER SUPPLY CONTRACT

On August 24, 2000, the District and Harris County Municipal Utility District No. 217 (“District No. 217”) entered into an emergency water supply contract. The interconnect facilities for the District were constructed and paid for by the District. The price to be paid for water furnished under the agreement is primarily the resupply of water in kind. If the water cannot be repaid in kind within two years, the water may be paid for at a rate of \$0.75 per 1,000 gallons of water used, plus any required regulatory fees. The term of the agreement is 50 years.

NOTE 10. CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY

On December 13, 2002, the District, Fallbrook Utility District, Harris County Municipal Utility District No. 33, Harris County Municipal Utility District No. 150, Harris County Municipal Utility District No. 200, Harris County Municipal Utility District No. 205, Harris County Municipal Utility District No. 215, Harris County Municipal Utility District No. 217, Harris County Utility District No. 16, and Rankin Road West Municipal Utility District entered into a water consortium agreement and formed the Central Harris County Water Users Consortium (the “Consortium”). In October of 2004, the agreement was amended to include Harris County Municipal Utility District No. 399.

Effective June 17, 2005, the Central Harris County Regional Water Authority (the “Authority”) was created to assume the duties of the Consortium. The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 3181, as passed by the 79th Texas Legislature. The Authority encompasses essentially the same entities as the Consortium.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 10. CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY
(Continued)

The Consortium assigned its agreements and transferred its assets to the Authority. The purpose of the Authority is 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, convert a percentage of its water use to surface water over a period of time.

The Authority 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. This fee enables the Authority to fulfill its purpose and regulatory functions and is subject to change at any time by the Authority. The current fee charged is \$2.31 per 1,000 gallons of water pumped from each well. The District recorded expenditures of \$432,162 for fees assessed during the current fiscal year and had an operating deposit with the Authority of \$4,914.

On September 1, 2015 the District entered into an agreement with the Authority authorizing the Authority to design and construct a supply line from the system to the District’s water plant. Under the terms of the agreement, the Authority will design, permit and construct the facilities. During the current year, the District made a design payment of \$85,550 to the Authority, plus an additional \$5,000 for miscellaneous fiscal, legal and administrative expenses. The District will pay the estimated construction costs to the Authority within 45 days of receipt of the invoice. Upon completion, the Authority will convey title to any District Facilities constructed as part of such extension to the District and the Authority will cause an accounting to be made of the final project costs. The Authority will have the option to reimburse the District in a lump sum cash payment, plus interest, no later than December 31, 2020. As an alternative to lump-sum reimbursement, the Authority will have the option to reimburse the District in equal monthly installments or authorize credit for monthly fees, rates or charges, beginning no later than January 2018. The agreement will remain in full force and effect until one year after the date upon which the Authority has completed full and final reimbursement to the District, or December 31, 2021, whichever is later.

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters, for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

NOTE 12. DUE TO DEVELOPERS

Developers of the District have constructed underground utilities on behalf of the District. The District is maintaining and operating the facilities and has agreed to reimburse the developers for these construction costs and interest to the extent approved by the Commission. The District is currently unable to estimate when bonds will be issued to pay this liability.

NOTE 13. RELEASE OF ESCROW

Per Commission Order dated March 6, 2008, the District escrowed \$1,196,463 from the Series 2008 bonds. By correspondence dated August 28, 2008 and July 26, 2016, the Commission authorized the release of \$196,450 and \$1,000,013 from escrow, respectively. During the current year the District used the \$1,000,013 along with \$256,062 contributed from the General Fund to reimburse the developer.

NOTE 14. REFUNDING BOND SALE

On February 17, 2016, the District closed on the sale of its \$8,030,000 Series 2016 Unlimited Tax Refunding Bonds. Proceeds were used to retire \$2,030,000 of its Series 2004A bonds with maturities of 2018-2032, interest rates of 4.30%-5.00% and a redemption date of February 18, 2016, and \$5,960,000 of its Series 2008 bonds with maturities of 2018-2035, interest rates of 5.00%-5.50% and a redemption date of February 18, 2016. The refunding resulted in gross debt service savings of \$1,516,652 and net present value savings of \$1,080,787.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304

REQUIRED SUPPLEMENTARY INFORMATION

AUGUST 31, 2016

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 196,350	\$ 516,375	\$ 320,025
Water Service	495,500	518,230	22,730
Wastewater Service	637,050	608,022	(29,028)
Regional Water Authority Fees	253,005	373,921	120,916
Penalty and Interest	59,350	54,805	(4,545)
Tap Connection and Inspection Fees	110,050	62,490	(47,560)
Miscellaneous Revenues	<u>49,350</u>	<u>62,465</u>	<u>13,115</u>
TOTAL REVENUES	<u>\$ 1,800,655</u>	<u>\$ 2,196,308</u>	<u>\$ 395,653</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 159,700	\$ 171,962	\$ (12,262)
Contracted Services	89,200	114,037	(24,837)
Utilities	122,250	132,525	(10,275)
Purchased Water/Regional Water Authority Assessments	313,000	432,162	(119,162)
Repairs and Maintenance	257,600	319,323	(61,723)
Other	491,400	401,763	89,637
Capital Outlay	<u>758,200</u>	<u>331,762</u>	<u>426,438</u>
TOTAL EXPENDITURES	<u>\$ 2,191,350</u>	<u>\$ 1,903,534</u>	<u>\$ 287,816</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (390,695)</u>	<u>\$ 292,774</u>	<u>\$ 683,469</u>
OTHER FINANCING SOURCES(USES)			
Transfers In(Out)	\$	\$ (256,062)	\$ (256,062)
Developer Contributions	<u></u>	<u>150,000</u>	<u>150,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ (106,062)</u>	<u>\$ (106,062)</u>
NET CHANGE IN FUND BALANCE	\$ (390,695)	\$ 186,712	\$ 577,407
FUND BALANCE - SEPTEMBER 1, 2015	<u>4,892,376</u>	<u>4,892,376</u>	<u></u>
FUND BALANCE - AUGUST 31, 2016	<u>\$ 4,501,681</u>	<u>\$ 5,079,088</u>	<u>\$ 577,407</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

AUGUST 31, 2016

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
SERVICES AND RATES
FOR THE YEAR ENDED AUGUST 31, 2016

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order dated December 17, 2015.

	<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:	\$ 20.90	10,000	N	\$ 1.50	10,001 and up				
WASTEWATER:	\$ 30.00		Y						
SURCHARGE:									
Regional Water Authority Fees	\$ 2.52	Per 1,000 gallons							
District employs winter averaging for wastewater usage?					<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"><u> </u></td> <td style="width: 50%; text-align: center;"><u> X </u></td> </tr> <tr> <td style="text-align: center;">Yes</td> <td style="text-align: center;">No</td> </tr> </table>	<u> </u>	<u> X </u>	Yes	No
<u> </u>	<u> X </u>								
Yes	No								

Total charges per 10,000 gallons usage: Water: \$20.90 Wastewater: \$30.00 Surcharge: \$25.20 Total: \$76.10

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
SERVICES AND RATES
FOR THE YEAR ENDED AUGUST 31, 2016

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	1,419	1,406	x 1.0	1,406
1"	6	6	x 2.5	15
1½"	1	1	x 5.0	5
2"	14	14	x 8.0	112
3"			x 15.0	
4"	3	3	x 25.0	75
6"			x 50.0	
8"	2	2	x 80.0	160
10"			x 115.0	
Total Water Connections	<u>1,445</u>	<u>1,432</u>		<u>1,773</u>
Total Wastewater Connections	<u>1,423</u>	<u>1,410</u>	x 1.0	<u>1,410</u>

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

Gallons pumped into system:	173,059,000	Water Accountability Ratio: 98% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	178,307,000	
Gallons Purchased:	9,800,000	From: Harris County Municipal Utility District No. 217

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
SERVICES AND RATES
FOR THE YEAR ENDED AUGUST 31, 2016

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2016

PROFESSIONAL FEES:	
Auditing	\$ 14,500
Engineering	63,512
Legal	<u>93,950</u>
TOTAL PROFESSIONAL FEES	<u>\$ 171,962</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 24,998
Operations and Billing	52,314
General Managers	<u>22,755</u>
TOTAL CONTRACTED SERVICES	<u>\$ 100,067</u>
UTILITIES:	
Electricity	\$ 127,697
Telephone	<u>4,828</u>
TOTAL UTILITIES	<u>\$ 132,525</u>
REPAIRS AND MAINTENANCE	<u>\$ 319,323</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 26,700
Insurance	16,416
Office Supplies and Postage	32,416
Payroll Taxes	4,820
Travel and Meetings	61,494
Other	<u>51,633</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 193,479</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2016

CAPITAL OUTLAY	\$	<u>331,762</u>
TAP CONNECTIONS	\$	<u>12,100</u>
SECURITY	\$	<u>13,970</u>
OTHER EXPENDITURES:		
Chemicals	\$	34,389
Laboratory Fees		8,442
Permit Fees		6,558
Reconnection Fees		7,817
Inspection Fees		4,990
Regional Water Authority Assessment		432,162
Regulatory Assessment		5,214
Sludge Hauling		<u>128,774</u>
TOTAL OTHER EXPENDITURES	\$	<u>628,346</u>
TOTAL EXPENDITURES	\$	<u><u>1,903,534</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
INVESTMENTS
AUGUST 31, 2016

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 749,471	\$
Certificate of Deposit	XXXX9691	0.60%	01/03/17	240,000	947
Certificate of Deposit	XXXX0397	0.40%	07/18/17	240,000	121
Certificate of Deposit	XXXX0026	0.55%	05/15/17	240,000	398
Certificate of Deposit	XXXX8830	0.70%	10/25/16	240,000	1,432
Certificate of Deposit	XXXX3110	0.51%	04/11/17	240,000	476
Certificate of Deposit	XXXX6106	0.60%	05/18/17	245,000	423
Certificate of Deposit	XXXX4634	0.60%	11/10/16	240,000	1,164
Certificate of Deposit	XXXX1552	0.50%	12/02/16	240,000	894
Certificate of Deposit	XXXX1624	0.50%	08/25/17	240,000	16
Certificate of Deposit	XXXX4251	0.20%	10/27/16	240,000	405
Certificate of Deposit	XXXX2952	0.40%	07/22/17	240,000	105
Certificate of Deposit	XXXX8264	0.50%	03/11/17	240,000	569
Certificate of Deposit	XXXX8516	0.40%	03/11/17	240,000	452
Certificate of Deposit	XXXX0344	0.50%	09/07/16	150,000	738
Certificate of Deposit	XXXX6255	0.30%	02/24/17	240,000	371
Certificate of Deposit	XXXX7278	0.50%	03/10/17	240,000	569
Certificate of Deposit	XXXX8234	0.55%	06/09/17	240,000	300
TOTAL GENERAL FUND				<u>\$ 4,744,471</u>	<u>\$ 9,380</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 26,491	\$
Certificate of Deposit	XXXX8841	0.50%	03/01/17	240,000	421
Certificate of Deposit	XXXX3232	0.55%	03/02/17	110,000	212
Certificate of Deposit	XXXX3890	0.50%	02/19/17	240,000	634
Certificate of Deposit	XXXX5398	0.60%	08/25/17	220,000	22
Certificate of Deposit	XXXX2710	0.60%	02/21/17	240,000	761
Certificate of Deposit	XXXX3949	0.40%	03/01/17	240,000	337
TOTAL DEBT SERVICE FUND				<u>\$ 1,316,491</u>	<u>\$ 2,387</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 212,399	\$ -0-
TOTAL				<u><u>\$ 6,273,361</u></u>	<u><u>\$ 11,767</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2016

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
SEPTEMBER 1, 2015	\$	5,946	\$	41,563
Adjustments to Beginning				
Balance		<u>(811)</u>	\$	<u>(5,632)</u>
		\$	5,135	\$
			<u>(5,632)</u>	35,931
Original 2015 Tax Levy	\$	453,251	\$	958,802
Adjustment to 2015 Tax Levy		<u>67,325</u>	<u>520,576</u>	<u>1,101,220</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	525,711	\$
				1,137,151
TAX COLLECTIONS:				
Prior Years	\$	(249)	\$	(1,355)
Current Year		<u>516,624</u>	<u>516,375</u>	<u>1,091,504</u>
			<u>1,092,859</u>	<u>1,091,504</u>
TAXES RECEIVABLE -				
AUGUST 31, 2016		<u>\$</u>	<u>9,336</u>	<u>\$</u>
				<u>45,647</u>
TAXES RECEIVABLE BY				
YEAR:				
2015	\$	3,952	\$	8,361
2014		672		5,039
2013		517		4,132
2012		1,232		3,204
2011		537		5,170
2010 and Prior		<u>2,426</u>		<u>19,741</u>
TOTAL	\$	<u>9,336</u>	\$	<u>45,647</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2016

	2015	2014	2013	2012
PROPERTY VALUATIONS:				
Land	\$ 56,295,257	\$ 53,960,125	\$ 52,277,752	\$ 51,208,444
Improvements	196,023,926	167,986,446	155,275,281	155,273,502
Personal Property	5,539,783	4,993,192	5,295,336	4,313,072
Exemptions	<u>(57,636,225)</u>	<u>(55,211,948)</u>	<u>(53,590,476)</u>	<u>(52,619,052)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 200,222,741</u>	<u>\$ 171,727,815</u>	<u>\$ 159,257,893</u>	<u>\$ 158,175,966</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.55	\$ 0.75	\$ 0.80	\$ 0.65
Maintenance	<u>0.26</u>	<u>0.10</u>	<u>0.10</u>	<u>0.25</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.81</u>	<u>\$ 0.85</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>
ADJUSTED TAX LEVY*	<u>\$ 1,621,796</u>	<u>\$ 1,459,679</u>	<u>\$ 1,433,165</u>	<u>\$ 1,423,577</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.24 %</u>	<u>99.61 %</u>	<u>99.68 %</u>	<u>99.69 %</u>

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

** Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation was approved by voters on January 20, 1996.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
LONG-TERM DEBT SERVICE REQUIREMENTS
AUGUST 31, 2016

S E R I E S - 2 0 1 2 R E F U N D I N G

Due During Fiscal Years Ending August 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2017	\$ 315,000	\$ 349,450	\$ 664,450
2018	460,000	340,000	800,000
2019	480,000	326,200	806,200
2020	495,000	311,800	806,800
2021	515,000	292,000	807,000
2022	535,000	271,400	806,400
2023	555,000	250,000	805,000
2024	585,000	227,800	812,800
2025	605,000	204,400	809,400
2026	630,000	180,200	810,200
2027	655,000	155,000	810,000
2028	750,000	128,800	878,800
2029	785,000	98,800	883,800
2030	825,000	67,400	892,400
2031	860,000	34,400	894,400
2032			
2033			
2034			
2035			
	<u>\$ 9,050,000</u>	<u>\$ 3,237,650</u>	<u>\$ 12,287,650</u>

The District records the amount due September 1 as an expenditure in the prior fiscal year. See Note 2. This schedule shows the amounts expended within the fiscal years assuming this practice will continue in the future.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
LONG-TERM DEBT SERVICE REQUIREMENTS
AUGUST 31, 2016

S E R I E S - 2 0 1 6 R E F U N D I N G

Due During Fiscal Years Ending August 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2017	\$ 180,000	\$ 298,100	\$ 478,100
2018	185,000	294,500	479,500
2019	190,000	290,800	480,800
2020	190,000	285,100	475,100
2021	195,000	279,400	474,400
2022	200,000	273,550	473,550
2023	205,000	267,550	472,550
2024	205,000	261,400	466,400
2025	220,000	253,200	473,200
2026	225,000	244,400	469,400
2027	230,000	235,400	465,400
2028	175,000	226,200	401,200
2029	180,000	219,200	399,200
2030	175,000	212,000	387,000
2031	180,000	205,000	385,000
2032	1,160,000	197,800	1,357,800
2033	1,210,000	151,400	1,361,400
2034	1,260,000	103,000	1,363,000
2035	1,315,000	52,600	1,367,600
	<u>\$ 7,880,000</u>	<u>\$ 4,350,600</u>	<u>\$ 12,230,600</u>

The District records the amount due September 1 as an expenditure in the prior fiscal year. See Note 2. This schedule shows the amounts expended within the fiscal years assuming this practice will continue in the future.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
LONG-TERM DEBT SERVICE REQUIREMENTS
AUGUST 31, 2016

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending August 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2017	\$ 495,000	\$ 647,550	\$ 1,142,550
2018	645,000	634,500	1,279,500
2019	670,000	617,000	1,287,000
2020	685,000	596,900	1,281,900
2021	710,000	571,400	1,281,400
2022	735,000	544,950	1,279,950
2023	760,000	517,550	1,277,550
2024	790,000	489,200	1,279,200
2025	825,000	457,600	1,282,600
2026	855,000	424,600	1,279,600
2027	885,000	390,400	1,275,400
2028	925,000	355,000	1,280,000
2029	965,000	318,000	1,283,000
2030	1,000,000	279,400	1,279,400
2031	1,040,000	239,400	1,279,400
2032	1,160,000	197,800	1,357,800
2033	1,210,000	151,400	1,361,400
2034	1,260,000	103,000	1,363,000
2035	1,315,000	52,600	1,367,600
	<u>\$ 16,930,000</u>	<u>\$ 7,588,250</u>	<u>\$ 24,518,250</u>

The District records the amount due September 1 as an expenditure in the prior fiscal year. See Note 2. This schedule shows the amounts expended within the fiscal years assuming this practice will continue in the future.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED AUGUST 31, 2016

Description	Original Bonds Issued	Bonds Outstanding September 1, 2015
Harris County Municipal Utility District No. 304 Unlimited Tax Bonds - Series 2004A	\$ 2,625,000	\$ 2,095,000
Harris County Municipal Utility District No. 304 Unlimited Tax Bonds - Series 2008	6,570,000	6,045,000
Harris County Municipal Utility District No. 304 Unlimited Tax Refunding Bonds - Series 2012	9,605,000	9,240,000
Harris County Municipal Utility District No. 304 Unlimited Tax Refunding Bonds - Series 2016	<u>8,030,000</u>	<u> </u>
TOTAL	<u><u>\$ 26,830,000</u></u>	<u><u>\$ 17,380,000</u></u>
 Bond Authority:	<u>Utility Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 30,271,760	\$ 30,271,760
Amount Issued	<u>22,170,000</u>	<u>999,133</u>
Remaining to be Issued	<u><u>\$ 8,101,760</u></u>	<u><u>\$ 29,272,627</u></u>

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

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding August 31, 2016	
	Principal	Interest		
\$	\$ 2,095,000	\$ 2,730	\$ - 0 -	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	6,045,000	4,675	-0-	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	190,000	353,250	9,050,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>8,030,000</u>	<u>150,000</u>	<u>162,259</u>	<u>7,880,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 8,030,000</u>	<u>\$ 8,480,000</u>	<u>\$ 522,914</u>	<u>\$ 16,930,000</u>	
Debt Service Fund cash and investment balances as of August 31, 2016:			<u>\$ 1,382,088</u>	
Average annual debt service payment (principal and interest) for remaining term of all debt:			<u>\$ 1,290,434</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – FIVE YEARS

	Amounts		
	2016	2015	2014
REVENUES			
Property Taxes	\$ 516,375	\$ 171,296	\$ 159,653
Water Service	518,230	492,538	464,210
Wastewater Service	608,022	588,358	582,721
Regional Water Authority Fees	373,921	295,496	239,556
Penalty and Interest	54,805	55,605	51,509
Tap Connection and Inspection Fees	62,490	70,071	50,875
Miscellaneous Revenues	62,465	55,947	315,254
TOTAL REVENUES	\$ 2,196,308	\$ 1,729,311	\$ 1,863,778
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 171,962	\$ 162,255	\$ 108,346
Contracted Services	114,037	98,203	83,296
Utilities	132,525	118,706	126,572
Purchased Water/Authority Assessments	432,162	382,429	269,072
Repairs and Maintenance	319,323	407,617	245,089
Other	401,763	369,567	305,296
Capital Outlay	331,762	179,039	47,016
TOTAL EXPENDITURES	\$ 1,903,534	\$ 1,717,816	\$ 1,184,687
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 292,774	\$ 11,495	\$ 679,091
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ (256,062)	\$	\$
Developer Contributions	150,000		
TOTAL OTHER FINANCING SOURCES (USES)	\$ (106,062)	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 186,712	\$ 11,495	\$ 679,091
BEGINNING FUND BALANCE	4,892,376	4,880,881	4,201,790
ENDING FUND BALANCE	\$ 5,079,088	\$ 4,892,376	\$ 4,880,881

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2013	2012	2016	2015	2014	2013	2012
\$ 393,317	\$ 136,697	23.6 %	9.9 %	8.6 %	21.4 %	9.1 %
528,569	488,582	23.6	28.5	24.9	28.7	32.7
555,757	568,858	27.7	34.0	31.2	30.2	38.1
230,066	200,595	17.0	17.1	12.9	12.5	13.4
38,438	53,126	2.5	3.2	2.8	2.1	3.6
39,125		2.8	4.1	2.7	2.1	
54,928	46,449	2.8	3.2	16.9	3.0	3.1
<u>\$ 1,840,200</u>	<u>\$ 1,494,307</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 113,762	\$ 109,939	7.8 %	9.4 %	5.8 %	6.2 %	7.4 %
87,632	184,463	5.2	5.7	4.5	4.8	12.3
138,787	136,738	6.0	6.9	6.8	7.5	9.2
285,368	276,977	19.7	22.1	14.4	15.5	18.5
256,829	206,564	14.5	23.6	13.2	14.0	13.8
256,432	237,936	18.3	21.4	16.4	13.9	15.9
82,004	97,737	15.1	10.4	2.5	4.5	6.5
<u>\$ 1,220,814</u>	<u>\$ 1,250,354</u>	<u>86.6 %</u>	<u>99.5 %</u>	<u>63.6 %</u>	<u>66.4 %</u>	<u>83.6 %</u>
\$ 619,386	\$ 243,953	13.4 %	0.5 %	36.4 %	33.6 %	16.4 %
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ 619,386	\$ 243,953					
3,582,404	3,338,451					
<u>\$ 4,201,790</u>	<u>\$ 3,582,404</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amount		
	2016	2015	2014
REVENUES			
Property Taxes	\$ 1,091,504	\$ 1,283,880	\$ 1,270,586
Penalty and Interest	9,279	10,276	13,161
Miscellaneous Revenues	<u>7,022</u>	<u>14,800</u>	<u>4,776</u>
TOTAL REVENUES	<u>\$ 1,107,805</u>	<u>\$ 1,308,956</u>	<u>\$ 1,288,523</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 54,364	\$ 56,094	\$ 43,718
Debt Service Principal	490,000	330,000	715,000
Debt Service Interest and Fees	525,214	773,519	792,427
Payment to Refunding Escrow Agent	11,000		
Bond Issuance Costs	<u>338,847</u>		
TOTAL EXPENDITURES	<u>\$ 1,419,425</u>	<u>\$ 1,159,613</u>	<u>\$ 1,551,145</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (311,620)</u>	<u>\$ 149,343</u>	<u>\$ (262,622)</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	\$ 8,030,000	\$	\$
Payment to Refunding Escrow Agent	(8,164,604)		
Bond Premium	479,088		
Bond Discount			
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 344,484</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 32,864	\$ 149,343	\$ (262,622)
BEGINNING FUND BALANCE	<u>1,340,354</u>	<u>1,191,011</u>	<u>1,453,633</u>
ENDING FUND BALANCE	<u>\$ 1,373,218</u>	<u>\$ 1,340,354</u>	<u>\$ 1,191,011</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>1,432</u>	<u>1,392</u>	<u>1,353</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>1,410</u>	<u>1,374</u>	<u>1,338</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2013	2012	2016	2015	2014	2013	2012
\$ 1,031,042	\$ 1,314,591	98.6 %	98.1 %	98.6 %	97.6 %	97.4 %
18,900	15,620	0.8	0.8	1.0	1.8	1.2
6,112	18,835	0.6	1.1	0.4	0.6	1.4
<u>\$ 1,056,054</u>	<u>\$ 1,349,046</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 48,234	\$ 44,452	4.9 %	4.3 %	3.4 %	4.6 %	3.3 %
935,000	405,000	44.2	25.2	55.5	88.5	30.0
915,518	770,291	47.4	59.1	61.5	86.7	57.1
	184,000	1.0				13.6
	548,279	30.6				40.6
<u>\$ 1,898,752</u>	<u>\$ 1,952,022</u>	<u>128.1 %</u>	<u>88.6 %</u>	<u>120.4 %</u>	<u>179.8 %</u>	<u>144.6 %</u>
<u>\$ (842,698)</u>	<u>\$ (602,976)</u>	<u>(28.1) %</u>	<u>11.4 %</u>	<u>(20.4) %</u>	<u>(79.8) %</u>	<u>(44.6) %</u>
\$	\$ 9,605,000					
	(9,271,685)					
	348,333					
	(126,563)					
<u>\$ - 0 -</u>	<u>\$ 555,085</u>					
\$ (842,698)	\$ (47,891)					
2,296,331	2,344,222					
<u>\$ 1,453,633</u>	<u>\$ 2,296,331</u>					
<u>1,310</u>	<u>1,303</u>					
<u>1,299</u>	<u>1,301</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
AUGUST 31, 2016

District Mailing Address - Harris County Municipal Utility District No. 304
c/o Schwartz Page & Harding, L.L.P.
1300 Post Oak Blvd., Suite 1400
Houston, TX 77056-3012

District Telephone Number - (713) 623-4531

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended August 31, 2016	Expense Reimbursements for the year ended August 31, 2016	Title
Jonathan Ward	05/16- 05/20 (Elected)	\$ 7,200	\$ 33,845	President/ General Manager
Leonard Cummings, Jr.	05/16- 05/20 (Elected)	\$ 7,200	\$ 7,626	Vice President/ General Manager
Herbert H. Harris, Jr.	05/14- 05/18 (Elected)	\$ 3,000	\$ 4,201	Secretary
Elvis Anderson	05/14- 05/18 (Elected)	\$ 7,200	\$ 8,270	Assistant Secretary
Ann-Toinette Johnson Preston	05/16- 05/20 (Elected)	\$ 2,100	\$ 265	Director

Note: 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 developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): May 23, 2016.

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). Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 304
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
AUGUST 31, 2016

	<u>Date Hired</u>	<u>Fees for the year ended August 31, 2016</u>	<u>Title</u>
Employees:			
Jonathan Ward	02/24/16	\$ 12,345	Co-General Manager
Leonard Cummings, Jr.	02/24/16	\$ 10,410	Co-General Manager
Consultants:			
Schwartz Page & Harding, L.L.P.	07/22/85	\$ 77,924 \$ 77,963	General Counsel/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	11/03/10	\$ 14,500 \$ 3,750	Audit/ Bond Related
Municipal Accounts & Consulting, L.P.	07/22/85	\$ 29,621	Bookkeeper
Ted A. Cox, P.C.	Prior to 09/01/01	\$ 2,876	Delinquent Tax Attorney
Edminster Hinshaw Russ & Associates, Inc.	08/20/15	\$ 58,329	Engineer
Rathmann & Associates, L.P.	04/24/03	\$ 105,375	Financial Advisor
JePa Services, Inc.	03/06/12	\$ 211,611	Operator
Barbara Wheeler, CTA, RPA	08/29/85	\$ 34,829	Tax Assessor/ Collector

See accompanying independent auditor's report.

