

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2010**



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2010**

## TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	9-10
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	11
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	12-13
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	14
NOTES TO BASIC FINANCIAL STATEMENTS	15-30
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	32
SUPPLEMENTARY INFORMATION – REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to basic financial statements)	
SERVICES AND RATES	34-36
GENERAL FUND EXPENDITURES	37-38
INVESTMENTS	39
TAXES LEVIED AND RECEIVABLE	40-41
LONG-TERM DEBT SERVICE REQUIREMENTS (NOT APPLICABLE)	
CHANGE IN LONG-TERM BOND DEBT	42-43
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	44-47
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	48-49

# McCALL GIBSON SWEDLUND BARFOOT PLLC

*Certified Public Accountants*

13100 Wortham Center Drive.  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

7801 N. Capital of Texas Hwy.  
Suite 350  
Austin, Texas 78731-1169  
(512) 418-2358  
Fax: (512) 340-0604  
[www.mgsbpllc.com](http://www.mgsbpllc.com)

Board of Directors  
Harris County Municipal  
Utility District No. 136  
Harris County, Texas

## Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 136 (the "District"), as of and for the year ended March 31, 2010, which collectively comprise the District's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors  
Harris County Municipal Utility District No. 136

The Management's Discussion and Analysis on pages 3 through 8 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 32 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants

July 8, 2010

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2010**

Our discussion and analysis of Harris County Municipal Utility District No. 136's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 2010. Please read it in conjunction with the District's financial statements, which begin on page 9.

**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 Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes 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 Assets. This information is found in the Statement of Net Assets column on pages 9 and 10. The Statement of Net Assets is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets 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 Statement of Activities on pages 12 and 13 reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2010**

**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 two governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes. The Debt Service Fund was closed during the current fiscal year.

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 Assets on page 11 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 14 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15 through 30 in this report.

**OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2010**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$3,985,351 as of March 31, 2010.

A portion of the District's net assets reflects its investments in capital assets (e.g. water, wastewater and drainage facilities), less any debt used to acquire those assets that is still outstanding. The District uses these assets to provide water and wastewater services.

The following is a comparative analysis of government-wide changes in net assets:

	Summary of Changes in the Statement of Net Assets		
	2010	2009	Change Positive (Negative)
Current and Other Assets	\$ 1,592,473	\$ 1,565,118	\$ 27,355
Capital Assets (Net of Accumulated Depreciation)	<u>2,607,292</u>	<u>2,490,325</u>	<u>116,967</u>
Total Assets	<u>\$ 4,199,765</u>	<u>\$ 4,055,443</u>	<u>\$ 144,322</u>
Long-Term Liabilities	\$	\$ 340,000	\$ 340,000
Other Liabilities	<u>214,414</u>	<u>340,034</u>	<u>125,620</u>
Total Liabilities	<u>\$ 214,414</u>	<u>\$ 680,034</u>	<u>\$ 465,620</u>
Invested in Capital Assets	\$ 2,607,292	\$ 2,050,325	\$ 556,967
Restricted		82,855	(82,855)
Unrestricted	<u>1,378,059</u>	<u>1,242,229</u>	<u>135,830</u>
Total Net Assets	<u>\$ 3,985,351</u>	<u>\$ 3,375,409</u>	<u>\$ 609,942</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2010**

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

The following table provides a summary of the District's operations for the years ended March 31, 2010, and March 31, 2009. The District increased its net assets by \$609,942, accounting for a 18.1% growth in net assets.

	Summary of Changes in the Statement of Activities		
	2010	2009	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 523,759	\$ 558,184	\$ (34,425)
Charges for Services	692,176	649,494	42,682
Other Revenues	423,978	51,097	372,881
Total Revenues	\$ 1,639,913	\$ 1,258,775	\$ 381,138
Expenses for Services	1,029,971	1,018,386	(11,585)
Change in Net Assets	\$ 609,942	\$ 240,389	\$ 369,553
Net Assets, Beginning of Year	3,375,409	3,135,020	240,389
Net Assets, End of Year	\$ 3,985,351	\$ 3,375,409	\$ 609,942

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

The District's combined fund balances as of March 31, 2010, were \$939,306, an decrease of \$341,619 from the prior year.

The General Fund fund balance decreased by \$280,084, primarily due to the use of monies to pay off the remaining amounts due on the Series 1998 bonds. The Debt Service Fund balance decreased by \$61,535. The Debt Service Fund was closed during the current fiscal year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenue was \$451,951 less than budgeted revenue. Actual expenditures were \$69,345 more than budgeted expenditures. See the budget to actual comparison on page 32.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2010**

**CAPITAL ASSETS**

The District's investment in capital assets as of March 31, 2010, amounts to \$2,607,292 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment as well as the water, wastewater and drainage systems.

Capital asset activity during the current fiscal year included the following:

- Water Plant disinfection modification and surface water expansion
- Joint Wastewater Treatment Plant Improvements
- Hydro tank painting
- Sanitary sewer improvements

Capital Assets At Year-End, Net of Accumulated Depreciation

Capital Assets Not Subject to Depreciation:	
Land and Land Improvements	\$ 56,586
Construction in Progress	62,458
Capital Assets Subject to Depreciation:	
Water System	1,643,094
Wastewater System	470,188
Drainage System	17,340
Equipment	50,166
Buildings and Improvements	21,618
Investment in Capacity of Wastewater Treatment Plant	<u>285,842</u>
Total Net Capital Assets	<u>\$ 2,607,292</u>

Additional information on the District's capital assets can be found in Note 5 pages 24 and 25 of this report.

**LONG TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total bond debt payable of \$-0-.

The changes in the debt position of the District during the fiscal year ended March 31, 2010, are summarized as follows:

Bond Debt Payable April 1, 2009	\$ 440,000
Less: Bond Principal Paid	<u>440,000</u>
Bond Debt Payable, March 31, 2010	<u>\$ -0-</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2010**

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of 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. 136, c/o Fulbright & Jaworski, L.L.P., 1301 McKinney Avenue, Suite 5100, Houston, TX 77010.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2010**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash, Note 4	\$ 73,898	\$	\$ 73,898
Investments, Note 4	951,814		951,814
Receivables:			
Service Accounts (Net of Allowance for Doubtful Accounts of \$-0-)	92,904		92,904
Property Taxes	28,803		28,803
Penalty and Interest on Delinquent Taxes	1,525		1,525
Due from Others		408,425	408,425
Advanced for Regional Wastewater Treatment Plant Operations, Note 8	21,649		21,649
Prepaid Costs	13,455		13,455
Land, Note 5		56,586	56,586
Construction in Progress, Note 5		62,458	62,458
Capital Assets (Net of Accumulated Depreciation), Note 5		<u>2,488,248</u>	<u>2,488,248</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,184,048</u>	<u>\$ 3,015,717</u>	<u>\$ 4,199,765</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2010**

	General Fund	Adjustments	Statement of Net Assets
<b>LIABILITIES</b>			
Accounts Payable	\$ 163,084	\$	\$ 163,084
Due to Taxpayers	1,740		1,740
Security Deposits	49,590		49,590
Deferred Property Taxes	28,803	(28,803)	
Deferred Penalty and Interest on Delinquent Taxes	1,525	(1,525)	
<b>TOTAL LIABILITIES</b>	<b>\$ 244,742</b>	<b>\$ (30,328)</b>	<b>\$ 214,414</b>
<b>FUND BALANCES/NET ASSETS</b>			
<b>FUND BALANCES</b>			
Reserved for Regional Wastewater Treatment Plant Operations, Note 8	\$ 21,649	\$ (21,649)	\$
Reserved for Prepaid Costs	13,455	(13,455)	
Unreserved – Undesignated	904,202	(904,202)	
<b>TOTAL FUND BALANCES</b>	<b>\$ 939,306</b>	<b>\$ (939,306)</b>	<b>\$</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,184,048</b>		
<b>NET ASSETS</b>			
Invested in Capital Assets		\$ 2,607,292	\$ 2,607,292
Unrestricted		1,378,059	1,378,059
<b>TOTAL NET ASSETS</b>		<b>\$ 3,985,351</b>	<b>\$ 3,985,351</b>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2010**

Total Fund Balances – Governmental Funds	\$ 939,306
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Land used in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds.	56,586
Construction in progress in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds.	62,458
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	2,488,248
Deferred tax revenues for the 2009 and prior tax levies became part of recognized revenue in the governmental activities of the District.	28,803
Deferred penalty and interest revenues for the 2009 and prior tax levies became part of recognized revenue in the governmental activities of the District.	1,525
The District has recorded a receivable from the West Harris County Regional Water Authority. Due to the unknown timing of payment for this receivable, this amount is only recorded in the governmental activities of the District.	<u>408,425</u>
Total Net Assets – Governmental Activities	<u>\$ 3,985,351</u>

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2010**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 420,629	\$ 110,093
Water Service	292,412	
Wastewater Service	217,241	
Regional Water Authority Fee	180,792	
Tap Connection and Inspection Fees	1,731	
Penalty and Interest	12,149	7,032
Investment Revenues	3,140	264
WHCRWA Reimbursement, Note 13		
Miscellaneous Revenues	945	442
<b>TOTAL REVENUES</b>	<b>\$ 1,129,039</b>	<b>\$ 117,831</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 52,178	\$ 2,138
Contracted Services	95,740	27,319
Purchased Water Service, Note 7 and 13	86,283	
Purchased Wastewater Service, Note 8	141,505	
Utilities	77,403	
Repairs and Maintenance, Note 11	224,658	
Regional Water Authority Assessments, Note 13	116,683	
Depreciation, Note 5		
Other	47,142	2,569
Capital Outlay	255,058	
Debt Service:		
Bond Principal	340,000	100,000
Bond Interest	1,205	18,608
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 1,437,855</b>	<b>\$ 150,634</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<b>\$ (308,816)</b>	<b>\$ (32,803)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfer In (Out), Note 2	\$ 28,732	\$ (28,732)
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (280,084)</b>	<b>\$ (61,535)</b>
<b>CHANGE IN NET ASSETS</b>		
<b>FUND BALANCES/NET ASSETS – APRIL 1, 2009</b>	1,219,390	61,535
<b>FUND BALANCES/NET ASSETS – MARCH 31, 2010</b>	<b>\$ 939,306</b>	<b>\$ -0-</b>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 530,722	\$ (6,963)	\$ 523,759
292,412		292,412
217,241		217,241
180,792		180,792
1,731		1,731
19,181	(8,419)	10,762
3,404		3,404
	408,425	408,425
<u>1,387</u>	<u>                    </u>	<u>1,387</u>
<u>\$ 1,246,870</u>	<u>\$ 393,043</u>	<u>\$ 1,639,913</u>
\$ 54,316	\$	\$ 54,316
123,059		123,059
86,283		86,283
141,505		141,505
77,403		77,403
224,658		224,658
116,683		116,683
	138,091	138,091
49,711		49,711
255,058	(255,058)	
	(440,000)	
440,000		
19,813	(1,551)	18,262
<u>19,813</u>	<u>                    </u>	<u>18,262</u>
<u>\$ 1,588,489</u>	<u>\$ (558,518)</u>	<u>\$ 1,029,971</u>
<u>\$ (341,619)</u>	<u>\$ 951,561</u>	<u>\$ 609,942</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ (341,619)	\$ 341,619	\$
	609,942	609,942
<u>1,280,925</u>	<u>2,094,484</u>	<u>3,375,409</u>
<u>\$ 939,306</u>	<u>\$ 3,046,045</u>	<u>\$ 3,985,351</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136  
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, 2010**

Net Change in Fund Balances - Governmental Funds	\$ (341,619)
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.	(6,963)
Governmental funds report delinquent tax penalty and interest when collected. However, in the Statement of Activities, revenue is recorded when the penalties and interest are assessed.	(8,419)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Assets, capital assets are increased by new purchases and the Statement of Activities is not affected.	255,058
Governmental funds do not account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(138,091)
Current year revenue is recorded in the Statement of Activities for amounts that are known to be receivable at year end but that the timing of payment is unknown.	408,425
Governmental funds report bond principal payments as expenditures. In the Statement of Net Assets, bond principal payments decrease long-term liabilities.	440,000
Governmental funds report interest expenditures on bonds as expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on bonds through the fiscal year end.	<u>1,551</u>
Change in Net Assets - Governmental Activities	<u>\$ 609,942</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 1. CREATION OF DISTRICT**

Harris County Municipal Utility District No. 136, located in Harris County, Texas (the "District") was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the "Commission"), effective December 6, 1974. 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, and to construct 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 January 7, 1975, and the first bonds were sold on April 29, 1976.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic 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. 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 Governmental Accounting Standards Board has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent municipality. The District does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the District's basic financial statements.

The District is a participant in a joint venture to operate a jointly owned wastewater treatment plant. Jackrabbit Road Public Utility District has oversight on the plant. Summary financial information on the plant is described in Note 8.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34-Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

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

Financial Statement Presentation (Continued)

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets 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 Assets – This component of net assets consists of external constraints placed on the use of net 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 Assets – This component of net assets consists of net assets that do not meet the definition of “Restricted” or “Invested in Capital Assets, Net of Related Debt.”

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 Assets and the Statement of Activities display information about the District as a whole. The District’s Statement of Net Assets 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.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

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

Government-Wide Financial Statements (Continued)

The Statement of Net Assets 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 Assets.

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.

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 two major governmental funds.

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

Debt Service Fund - To account for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes. The Debt Service Fund was closed during the current fiscal year.

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 sixty (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.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

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

Basis of Accounting (Continued)

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 an other financing source or use. 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. During the current fiscal year, the Debt Service Fund was closed and the remaining \$28,732 was transferred to the General Fund.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Assets. 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 an expenditure 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 greater than \$10,000 or more and a useful life of at least two (2) 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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

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

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

The District has not established a pension plan as the District does not have employees. 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.

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 Assets 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 assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

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 are included on the Balance Sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

Unreserved:

Designated - To indicate fund equity for which the District has made tentative plans.

Undesignated - To indicate fund equity which is available for use in future periods.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**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. BONDS PAYABLE**

	<u>Series 1998 Refunding Bonds</u>
Amount Outstanding - March 31, 2010	\$ -0-
Interest Rates	N/A
Maturity Dates - Serially Beginning/Ending	N/A
Interest Payment Dates	N/A
Callable Dates	N/A

The Series 1998 Refunding Bonds were paid in full during the current year using \$100,000 from the Debt Service Fund and \$340,000 from the General Fund.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 3. BONDS PAYABLE (Continued)**

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2010:

Bond Debt Payable - April 1, 2009	\$ 440,000
Less: Bond Principal Retirement: Series 1998 Refunding	<u>440,000</u>
Bond Debt Payable - March 31, 2010	<u>\$ -0-</u>
Original Bonds Voted	<u>\$ 8,000,000</u>
Original Bonds Approved	<u>\$ 8,000,000</u>
Original Bonds Issued	<u>\$ 8,000,000</u>

During the year ended March 31, 2010, the District levied an ad valorem debt service tax at the rate of \$0.055 per \$100 of assessed valuation, which resulted in a tax levy of \$105,251 on the adjusted taxable valuation of \$191,365,797 for the 2009 tax year. The Bond Order requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 6 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. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 4. 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 \$73,898 and the bank balance was \$70,849. The bank balance was covered by federal depository insurance.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at March 31, 2010, as listed below:

GENERAL FUND	\$ <u>73,898</u>
--------------	------------------

Investments

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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, (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.

All investments are recorded at cost, which the District considers to be fair value. 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 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.

As of March 31, 2010, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND -</u>					
TexPool	\$ 951,814	\$ 951,814	\$ -0-	\$ -0-	\$ -0-
Total Investments	<u>\$ 951,814</u>	<u>\$ 951,814</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2010, the District's investment in TexPool was rated AAAM by Standard and Poor's.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

**Interest Rate Risk.** 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.

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2010:

	<u>April 1, 2009</u>	<u>Additions</u>	<u>March 31, 2010</u>
<b>Capital Assets Not Being Depreciated</b>			
Land and Land Improvements	\$ 56,586	\$	\$ 56,586
Construction in Progress	<u>305,689</u>	<u>(243,231)</u>	<u>62,458</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 362,275</u>	<u>\$ (243,231)</u>	<u>\$ 119,044</u>
<b>Capital Assets at Historical Costs Subject to Depreciation</b>			
Water System	\$ 3,038,235	\$ 498,289	\$ 3,536,524
Wastewater System	1,521,292		1,521,292
Drainage System	73,465		73,465
Equipment	60,064		60,064
Buildings and Improvements	23,000		23,000
Investment in Capacity of Wastewater Treatment Plant	<u>969,346</u>		<u>969,346</u>
<b>Total Capital Assets at Historical Costs Subject to Depreciation</b>	<u>\$ 5,685,402</u>	<u>\$ 498,289</u>	<u>\$ 6,183,691</u>
<b>Less Accumulated Depreciation</b>			
Water System	\$ 1,804,407	\$ 89,023	\$ 1,893,430
Wastewater System	1,017,298	33,806	1,051,104
Drainage System	54,492	1,633	56,125
Equipment	6,895	3,003	9,898
Buildings and Improvements	807	575	1,382
Investment in Capacity of Wastewater Treatment plant	<u>673,453</u>	<u>10,051</u>	<u>683,504</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 3,557,352</u>	<u>\$ 138,091</u>	<u>\$ 3,695,443</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 5. CAPITAL ASSETS (Continued)**

	<u>April 1, 2009</u>	<u>Additions</u>	<u>March 31, 2010</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	\$ <u>2,128,050</u>	\$ <u>360,198</u>	\$ <u>2,488,248</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	\$ <u>2,490,325</u>	\$ <u>116,967</u>	\$ <u>2,607,292</u>

**NOTE 6. MAINTENANCE TAX**

On November 8, 1977, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. A maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system. During the year ended March 31, 2010, the District levied an ad valorem maintenance tax at the rate of \$0.215 per \$100 of assessed valuation, which resulted in a tax levy of \$411,436 on the adjusted taxable valuation of \$191,365,797 for the 2009 tax year.

**NOTE 7. EMERGENCY WATER SUPPLY AGREEMENT**

On April 13, 1983, the District entered into an agreement with Harris County Municipal Utility District No. 183 (District No. 183) whereby each district will provide the other district with delivery of water during emergency conditions. The term of the contract is 35 years. The agreement may be terminated by either party, upon 360 days written notice to the other party, on any date after the 5th anniversary of the agreement. A meter and valve was installed at the point of interconnection at the sole cost of District No. 183. District No. 183 is responsible for the maintenance and repair of the meter and valve.

On April 19, 1995, the District and District No. 183 approved the First Amendment to Emergency Water Supply Agreement. On June 1, 2001, a second amendment to the agreement was executed. The amended contract changes the price to be paid for water delivered to \$1.00 per 1,000 gallons for the first five years plus any direct fees, charges or assessments imposed by the West Harris County Regional Water Authority or the City of Houston. Sixty (60) days prior to each successive fifth anniversary, both Districts shall review the costs for water delivered and may reduce, increase or maintain the rate set.

During the current year, the District received 1,024,000 gallons of water through the interconnect. The District paid District No. 183 \$2,491, which included \$1,621 for water delivered and \$870 of West Harris County Regional Water Authority fees.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 7. EMERGENCY WATER SUPPLY AGREEMENT (Continued)**

On January 13, 2003, the District entered into an agreement with Barker-Cypress Municipal Utility District (Barker) whereby each district will provide the other district with delivery of water during emergency conditions. Under the agreement, Barker will construct water lines from the District's existing water supply systems at its own cost. Each party shall be responsible for maintaining its respective interconnect lines at its sole cost and expense. The price to be paid for water delivered pursuant to this contract during an emergency shall be \$1.00 per 1,000 gallons of water usage. The term of the contract is fifty (50) years. The agreement may be modified at any time with the consent of both parties.

**NOTE 8. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE AGREEMENT**

The District entered into an agreement with Jackrabbit Road Public Utility District (JRPUD) on September 10, 1975. Under the contract, JRPUD agreed to enlarge and expand its wastewater treatment facilities to provide service to the District. The District agreed to pay its proportionate share of the cost of engineering and construction. See Note 5 for the recording of the District's investment in the capacity of the plant as a capital asset being depreciated over the life of this agreement. The District's share of the operating cost is based on its pro rata share of capacity in the plant. The term of the agreement is thirty-five (35) years. On September 11, 2002, the agreement was amended to extend the term an additional forty (40) years to September 10, 2050.

JRPUD's wastewater treatment facilities also serve the following districts. Their respective pro rata share of capacity in the regional sewage treatment plant are as follows:

District	Gallons Per Day	Percentage of Ownership
Barker-Cypress Municipal Utility District		21.86%
Harris County Utility District No. 6		30.43
Harris County Municipal Utility District No. 136		9.80
Harris County Municipal Utility District No. 183		12.45
Harris County Municipal Utility District No. 276		3.20
Jackrabbit Road Public Utility District		<u>22.26</u>
<b>TOTAL</b>		<u>100.00%</u>

The Board of Directors of JRPUD is solely empowered with the rights and responsibilities for management of the sewage treatment facilities. The Board of JRPUD is elected by voters of JRPUD. The Board of JRPUD exercises sole control over budgeting and financing of the sewage treatment facilities.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 8. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE AGREEMENT (Continued)**

The following summary financial data on the Regional Sewage Treatment Plant is presented for the fiscal year ended July 31, 2009. A copy of the financial statements can be obtained by contacting Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, TX 77056-3012.

	Joint Venture	
	General Fund	Capital Projects Fund
Total Assets	\$ 334,275	\$ 47,604
Total Liabilities	<u>113,366</u>	<u>2,262</u>
Total Fund Balance	<u>\$ 220,909</u>	<u>\$ 45,342</u>
Total Revenues	\$ 1,571,992	\$ 841
Total Expenditures	<u>1,571,992</u>	<u>11,158</u>
Excess Revenues (Expenditures)	\$ -0-	\$ (10,317)
Contributions from Participants	160,500	
Fund Balance, Beginning of Year	<u>60,409</u>	<u>55,659</u>
Fund Balance, End of Year	<u>\$ 220,909</u>	<u>\$ 45,342</u>

In the current fiscal year, the District's reserve for operation and maintenance of the regional sewage treatment plant was \$21,649. The District recorded a total of \$141,505 as its share of the operating costs of the plant, of which \$33,039 is payable at year end. The District also recorded \$29,918 as its share of Phase III wastewater treatment plant improvements.

**NOTE 9. SANITARY SEWER CONTRACT WITH PINE FOREST COUNTRY CLUB**

The District entered into a Sanitary Sewer Contract with Pine Forest Country Club on September 21, 1976. Under the terms of the contract the District agreed to construct, at its cost, a sanitary sewer line which will collect up to 20,000 gallons-per-day of waste from Pine Forest Country Club. The sanitary sewer line is to be owned, operated and maintained by the Club. As part of its contract with Jackrabbit Road Public Utility District, see Note 8, the District purchased an additional 20,000 gallons of capacity in the central sewage treatment plant in order to serve the Pine Forest Country Club.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 9. SANITARY SEWER CONTRACT WITH PINE FOREST COUNTRY CLUB (Continued)**

The terms of the contract with Pine Forest Country Club specify that the following monthly amounts be paid to the District for providing sewer services to the Club:

1. \$200 per month during the initial 26-year term of the contract, plus
2. An amount equal to 50 times the current monthly sewer rate set by the District for its residential customers.

**NOTE 10. WATER SUPPLY AND WASTE DISPOSAL CONTRACT WITH UNIVERSITY DEVELOPMENT, INC.**

On October 8, 2003, the District entered into a Water Supply and Waste Disposal Contract with University Development, Inc. ("Landowner"). Under the terms of the contract, the Landowner agreed to construct, at its cost, a water distribution and sanitary sewer system to serve the 11.2457 acres land in the vicinity of the District. The tract's water distribution and sewer system shall be maintained and kept in proper condition and repair at the Landowner's expense. The District agreed to provide a supply of water and receive waste not to exceed 30,000 gallons per day. The price to be paid to the District for the water and wastewater shall be equal to 240% of the rates charged to a commercial connection within the District. The term of the contract is forty (40) years and subject to right of either party to cancel upon 360 days of notice. The contract may be terminated by the Landowner upon not less than 60 days of notice to the District at any time after annexation of the Tract by the City of Houston, Texas.

**NOTE 11. MAINTENANCE AND REPAIR**

During the current fiscal year, maintenance and repair costs totaling \$224,658 were incurred from the General Fund. Of this amount, \$8,047 was for sanitary sewer rehabilitation, \$86,613 was for water production facility repair and maintenance, \$71,722 was for water distribution facility repair and maintenance, \$50,972 for sewer repair and maintenance and \$7,304 for storm sewer repair and maintenance within the District.

**NOTE 12. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 13. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY**

The District is located within the boundaries of the West Harris County Regional Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the seventy-seventh Texas Legislature, in 2001. The Act empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivision.

A nine-member board of directors governs the Authority. The directors serve staggered four-year terms. Each director must qualify to serve as director in the manner provided by Section 49.055 of the Water Code.

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. During the current year, the fee for 1,000 gallons of water pumped from each well was \$0.95 from April 2009 to December 2009 and \$1.25 from January 2010 to March 2010. The District recorded an expenditure of \$116,683 for fees assessed during the year ended March 31, 2010. In addition, the District purchased surface water from the Authority. During the current year, the fee for 1,000 gallons of surface water was \$1.25 from April 2009 to December 2009 and \$1.55 from January 2010 to March 2010. The District recorded an expenditure of \$84,662 in relation to purchased surface water during the year ended March 31, 2010. The total surface water purchased from the Authority was 56,560,000 gallons.

The Authority has provided in its Rate Order that utility district costs of piping to connect from the Authority's meter and flow control station to the District's tank(s) and for conversion of chlorine disinfection to chloramine disinfection may be eligible for reimbursement from the Authority. District's actual and reasonable engineering costs will be eligible for reimbursement in an amount not to exceed 25% of the actual and reasonable construction costs that are eligible and approved by the Authority for reimbursement; provided, however, that such engineering costs shall not exceed \$120,000 per district water plant unless the Authority board approves and amount greater than \$120,000.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**MARCH 31, 2010**

**NOTE 13. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY**  
(Continued)

The District provided appropriate documentation and filed a claim for reimbursement to the Authority for costs related to the chloramine conversion. The Authority reviewed the request and, subsequent to year end, approved reimbursement to the District in the amount of \$408,425. As the amount was not received within sixty days of year end, the amount is being shown in the governmental Statement of Net Assets as a receivable and in the governmental Statement of Activities as a revenue.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARCH 31, 2010**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2010**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 401,460	\$ 420,629	\$ 19,169
Water Service	281,600	292,412	10,812
Wastewater Service	185,800	217,241	31,441
Regional Water Authority Fees	181,330	180,792	(538)
Tap Connection and Inspection Fees	2,600	1,731	(869)
Penalty and Interest	12,000	12,149	149
Investment Revenues	15,000	3,140	(11,860)
WHCWA Reimbursement	500,000		(500,000)
Miscellaneous Revenues	1,200	945	(255)
<b>TOTAL REVENUES</b>	<b>\$ 1,580,990</b>	<b>\$ 1,129,039</b>	<b>\$ (451,951)</b>
<b>EXPENDITURES</b>			
Service Operations:			
Professional Fees	\$ 53,000	\$ 52,178	\$ 822
Contracted Services	64,400	95,740	(31,340)
Purchased Water Service	30,000	86,283	(56,283)
Purchased Wastewater Service	130,000	141,505	(11,505)
Utilities	97,000	77,403	19,597
Repairs and Maintenance	306,000	224,658	81,342
Regional Water Authority Assessments	181,450	116,683	64,767
Other	65,660	47,142	18,518
Capital Outlay	441,000	255,058	185,942
Debt Service:			
Bond Principal		340,000	(340,000)
Bond Interest		1,205	(1,205)
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,368,510</b>	<b>\$ 1,437,855</b>	<b>\$ (69,345)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 212,480</b>	<b>\$ (308,816)</b>	<b>\$ (521,296)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer In	\$ -0-	\$ 28,732	\$ 28,732
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 212,480</b>	<b>\$ (280,084)</b>	<b>\$ (492,564)</b>
<b>FUND BALANCE – APRIL 1, 2009</b>	<b>1,219,390</b>	<b>1,219,390</b>	
<b>FUND BALANCE – MARCH 31, 2010</b>	<b>\$ 1,431,870</b>	<b>\$ 939,306</b>	<b>\$ (492,564)</b>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**MARCH 31, 2010**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**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	_____	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 or effective January 14, 2010.

	<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:	\$ 5.00	1,000	N	\$ 1.00 2.00 3.00	1,001 to 20,000 20,001 to 30,000 30,001 and up
WASTEWATER:	\$ 28.05		Y		
SURCHARGE:					
Solid Waste/ Garbage					
Commission					
Regulatory Assessments					
Regional Water Authority Fees	100% of Regional Water Authority surface water fee of \$1.55 per 1,000 gallons of water pumped				
Other (Name)					

District employs winter averaging for wastewater usage? \_\_\_\_\_   X    
Yes            No

Total monthly charges per 10,000 gallons usage: Water: \$14.00 Wastewater: \$28.05 Surcharge: \$15.50 Total: \$57.55

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**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"	<u>1,066</u>	<u>1,057</u>	x 1.0	<u>1,057</u>
1"	<u>3</u>	<u>3</u>	x 2.5	<u>8</u>
1½"	<u>3</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>9</u>	<u>7</u>	x 8.0	<u>56</u>
3"			x 15.0	
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"			x 50.0	
8"	<u>1</u>	<u>1</u>	x 80.0	<u>80</u>
10"			x 115.0	
Total Water Connections	<u><u>1,083</u></u>	<u><u>1,072</u></u>		<u><u>1,241</u></u>
Total Wastewater Connections	<u><u>1,068</u></u>	<u><u>1,057</u></u>	x 1.0	<u><u>1,057</u></u>

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

Gallons pumped into system:	134,571,000	Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	176,426,000	<u>93.6%</u>
Gallons purchased:	53,915,000	From: <u>Harris County Municipal Utility</u> <u>District No. 183 and West</u> <u>Harris County Regional</u> <u>Water Authority</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2010**

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

Does the District have Debt Service standby fees? Yes \_\_\_ No X

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

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

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely \_\_\_\_\_ Partly \_\_\_\_\_ Not at all X

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

Entirely X Partly \_\_\_\_\_ Not at all \_\_\_\_\_

ETJ's in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

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

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MARCH 31, 2010**

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>-0-</u>
PROFESSIONAL FEES:	
Auditing	\$ 11,000
Engineering	17,723
Legal	<u>23,455</u>
TOTAL PROFESSIONAL FEES	\$ <u>52,178</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 86,283
Purchased Wastewater Service	<u>141,505</u>
TOTAL PURCHASED SERVICES FOR RESALE	\$ <u>227,788</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 10,770
Operations and Billing	<u>53,094</u>
TOTAL CONTRACTED SERVICES	\$ <u>63,864</u>
UTILITIES:	
Electricity	\$ 70,011
Telephone	<u>7,392</u>
TOTAL UTILITIES	\$ <u>77,403</u>
REPAIRS AND MAINTENANCE	\$ <u>224,658</u>
BOND INTEREST	\$ <u>1,205</u>
BOND PRINCIPAL	\$ <u>340,000</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MARCH 31, 2010**

ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 8,600
Insurance	11,796
Office Supplies and Postage	1,989
Payroll Taxes	658
Travel and Meetings	3,160
Other	<u>2,824</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 29,027</u>
CAPITAL OUTLAY:	
Capital Assets	\$ 255,058
Expenditures not Capitalized	<u>          </u>
TOTAL CAPITAL OUTLAY	<u>\$ 255,058</u>
TAP CONNECTION EXPENDITURES	<u>\$ -0-</u>
SOLID WASTE DISPOSAL	<u>\$ 31,876</u>
FIRE FIGHTING	<u>\$ -0-</u>
PARKS AND RECREATION	<u>\$ -0-</u>
SECURITY	<u>\$ -0-</u>
OTHER EXPENDITURES:	
Chemicals	\$ 10,969
Inspection Fees	28
Laboratory Fees	3,926
Permit Fees	707
Regional Water Authority Fee	116,683
Regulatory Assessment Fee	<u>2,485</u>
TOTAL OTHER EXPENDITURES	<u>\$ 134,798</u>
TOTAL EXPENDITURES	<u>\$ 1,437,855</u>

Number of persons employed by the District      -0- Full-Time      -0- Part-Time

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**INVESTMENTS**  
**MARCH 31, 2010**

<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>
<b><u>GENERAL FUND</u></b>					
TexPool	2576500001	Varies	Daily	\$ 946,114	\$
TexPool	2576500002	Varies	Daily	<u>5,700</u>	<u>                    </u>
<b>TOTAL - GENERAL FUND</b>				<b><u>\$ 951,814</u></b>	<b><u>\$ -0-</u></b>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2010**

	Maintenance Taxes		Debt Service Taxes	
<b>TAXES RECEIVABLE –</b>				
April 1, 2009	\$ 22,839		\$ 12,927	
Adjustments to Beginning Balance	<u>15,157</u>	\$ 37,996	<u>(8,085)</u>	\$ 4,842
Original 2009 Tax Levy	\$ 335,446		\$ 85,812	
Adjustment to 2009 Tax Levy	<u>75,990</u>	<u>411,436</u>	<u>19,439</u>	<u>105,251</u>
<b>TOTAL TO BE ACCOUNTED FOR</b>		<b>\$ 449,432</b>		<b>\$ 110,093</b>
<b>TAX COLLECTIONS:</b>				
Prior Years	\$ 21,774		\$ 4,842	
Current Year	<u>398,855</u>	<u>420,629</u>	<u>105,251</u>	<u>110,093</u>
<b>TAXES RECEIVABLE –</b>				
<b>MARCH 31, 2010</b>		<u><u>\$ 28,803</u></u>		<u><u>\$ -0-</u></u>
<b>TAXES RECEIVABLE BY YEAR:</b>				
2009		\$ 12,581		\$ -0-
2008		2,141		
2007		1,567		
2006		1,559		
2005		2,151		
2004		1,427		
2003		762		
2002		1,290		
2001		636		
2000		573		
1999		554		
1998		580		
1997		580		
1996		619		
1995		619		
1994		619		
1993		<u>545</u>		
<b>TOTAL TAXES RECEIVABLE BY YEAR</b>		<u><u>\$ 28,803</u></u>		<u><u>\$ -0-</u></u>

See accompanying independent auditor's report.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2010**

	2009	2008	2007	2006
PROPERTY VALUATIONS				
Land	\$ 35,097,001	\$ 35,118,824	\$ 32,663,508	\$ 33,243,404
Improvements	165,214,753	168,789,860	167,721,133	153,087,427
Personal Property	4,703,588	5,705,904	5,869,015	5,699,422
Exemptions	<u>(13,649,545)</u>	<u>(12,900,513)</u>	<u>(13,301,718)</u>	<u>(4,869,024)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 191,365,797</u>	<u>\$ 196,714,075</u>	<u>\$ 192,951,938</u>	<u>\$ 187,161,229</u>
TAX RATES PER \$100 VALUATION				
Debt Service Taxes	\$ 0.0550	\$ 0.0550	\$ 0.0550	\$ 0.0550
Maintenance Taxes	<u>0.2150</u>	<u>0.2150</u>	<u>0.2150</u>	<u>0.2350</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.2700</u>	<u>\$ 0.2700</u>	<u>\$ 0.2700</u>	<u>\$ 0.2900</u>
ADJUSTED TAX LEVY*	<u>\$ 516,687</u>	<u>\$ 531,128</u>	<u>\$ 520,971</u>	<u>\$ 542,768</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>97.57%</u>	<u>99.60%</u>	<u>99.70%</u>	<u>99.71%</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 \$1.00 per \$100 of assessed valuation approved by voters on November 8, 1977.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED MARCH 31, 2010**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2009
Harris County Municipal Utility District No. 136 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 1998	<u>\$ 3,584,358</u> (1)	<u>\$ 440,000</u>
<b>Bond Authority:</b>	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 8,000,000	\$ -0-
Amount Issued	<u>8,000,000</u>	<u>-0-</u>
Remaining to be Issued	<u>\$ -0-</u>	<u>\$ -0-</u>
Debt Service Fund cash, investments and cash with paying agent balances as of March 31, 2010:		<u>\$ -0-</u>
Average annual debt service payment (principal and interest) for remaining term of all bond debt:		<u>\$ -0-</u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>			<u>Bonds Outstanding March 31, 2010</u>	<u>Paying Agent</u>
<u>Bonds Sold</u>	<u>Retirements</u>			
	<u>Principal</u>	<u>Interest</u>		
<u>\$ -0-</u>	<u>\$ 440,000</u>	<u>\$ 19,813</u>	<u>\$ -0-</u>	The Bank of New York Mellon Trust Company, N.A. Houston, TX

- (1) The District has fully retired its \$2,750,000 Series 1976 Bonds, \$1,785,000 Series 1976-A Bonds, \$2,150,000 Series 1977 Bonds, \$1,315,000 Series 1988 Bonds, \$3,395,000 Series 1992 Refunding Bonds and \$3,584,358 Series 1998 Refunding Bonds. The District has issued a total of \$14,979,358 bonds of which \$6,979,358 have been Refunding Bonds.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2010	2009	2008
<b>REVENUES</b>			
Property Taxes	\$ 420,629	\$ 440,303	\$ 416,734
Water Service	292,412	292,276	236,178
Wastewater Service	217,241	186,601	185,822
Regional Water Authority Fees	180,792	169,202	118,647
Penalty and Interest	1,731	11,391	9,012
Tap Connection and Inspection Fees	12,149	1,415	
Investment Revenues	3,140	22,873	51,615
Miscellaneous Revenues	945	3,338	2,776
<b>TOTAL REVENUES</b>	<b>\$ 1,129,039</b>	<b>\$ 1,127,399</b>	<b>\$ 1,020,784</b>
<b>EXPENDITURES</b>			
Professional Fees	\$ 52,178	\$ 50,955	\$ 44,024
Contracted Services	95,740	63,729	63,413
Purchased Water Service	86,283	43,745	
Purchased Wastewater Service	141,505	140,941	115,266
Utilities	77,403	76,340	75,935
Repairs and Maintenance	224,658	213,814	190,970
Regional Water Authority Assessment	116,683	165,877	120,728
Other	388,347	68,688	47,130
Capital Outlay	255,058	431,413	78,204
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,437,855</b>	<b>\$ 1,255,502</b>	<b>\$ 735,670</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (308,816)</b>	<b>\$ (128,103)</b>	<b>\$ 285,114</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	\$ 28,732	\$ -0-	\$ -0-
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (280,084)</b>	<b>\$ (128,103)</b>	<b>\$ 285,114</b>
<b>BEGINNING FUND BALANCE</b>	<b>1,219,390</b>	<b>1,347,493</b>	<b>1,062,379</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 939,306</b>	<b>\$ 1,219,390</b>	<b>\$ 1,347,493</b>

See accompanying independent auditor's report.

		Percent of Total Revenue					
2007	2006	2010	2009	2008	2007	2006	
\$ 441,413	\$ 404,511	37.2%	39.1%	40.8%	41.0%	36.5%	
274,437	351,571	25.9	25.9	23.1	25.5	31.7	
183,780	186,392	19.2	16.6	18.2	17.1	16.8	
120,771	121,080	16.0	15.0	11.6	11.2	10.9	
11,584	12,465	0.2	1.0	0.9	1.1	1.1	
	532	1.1	0.1			0.1	
43,515	31,143	0.3	2.0	5.1	4.0	2.8	
<u>562</u>	<u>560</u>	<u>0.1</u>	<u>0.3</u>	<u>0.3</u>	<u>0.1</u>	<u>0.1</u>	
<u>\$ 1,076,062</u>	<u>\$ 1,108,254</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	
\$ 42,218	\$ 74,278	4.6%	4.5%	4.3%	3.9%	6.7%	
63,636	64,732	8.5	5.7	6.2	5.9	5.8	
		7.6	3.9				
117,085	107,969	12.5	12.5	11.3	10.9	9.7	
94,282	94,963	6.9	6.8	7.4	8.8	8.6	
164,808	149,928	19.9	19.0	18.7	15.3	13.5	
123,154	116,812	10.3	14.8	11.9	11.5	10.5	
51,751	57,272	34.4	6.1	4.6	4.8	5.2	
<u>167,051</u>	<u>46,247</u>	<u>22.6</u>	<u>38.2</u>	<u>7.7</u>	<u>15.5</u>	<u>4.2</u>	
<u>\$ 823,985</u>	<u>\$ 712,201</u>	<u>127.3%</u>	<u>111.5%</u>	<u>72.1%</u>	<u>76.6%</u>	<u>64.2%</u>	
<u>\$ 252,077</u>	<u>\$ 396,053</u>	<u>(27.3)%</u>	<u>(11.5)%</u>	<u>27.9%</u>	<u>23.4%</u>	<u>35.8%</u>	
\$ (20,196)	\$ (387,368)						
\$ 231,881	\$ 8,685						
<u>830,498</u>	<u>821,813</u>						
<u>\$ 1,062,379</u>	<u>\$ 830,498</u>						

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2010	2009	2008
<b>REVENUES</b>			
Property Taxes	\$ 110,093	\$ 117,084	\$ 107,133
Penalty and Interest	7,032	12,044	7,136
Investment Revenues	264	1,419	4,689
Miscellaneous Revenues	<u>442</u>		
<b>TOTAL REVENUES</b>	<u>\$ 117,831</u>	<u>\$ 130,547</u>	<u>\$ 118,958</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 30,551	\$ 35,448	\$ 32,144
Debt Service Principal	100,000	95,000	85,000
Debt Service Interest and Fees	<u>20,083</u>	<u>23,424</u>	<u>27,227</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 150,634</u>	<u>\$ 153,872</u>	<u>\$ 144,371</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (32,803)</u>	<u>\$ (23,325)</u>	<u>\$ (25,413)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	<u>\$ (28,732)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (61,535)	\$ (23,325)	\$ (25,413)
<b>BEGINNING FUND BALANCE</b>	<u>61,535</u>	<u>84,860</u>	<u>110,273</u>
<b>ENDING FUND BALANCE</b>	<u>\$ -0-</u>	<u>\$ 61,535</u>	<u>\$ 84,860</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>1,072</u>	<u>1,074</u>	<u>1,073</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>1,057</u>	<u>1,059</u>	<u>1,059</u>

See accompanying independent auditor's report.

		Percent of Total Revenue				
2007	2006	2010	2009	2008	2007	2006
\$ 115,391	\$ 332,108	93.4%	89.7%	90.1%	85.4%	96.4%
14,283	7,737	6.0	9.2	6.0	10.6	2.3
5,470	4,543	0.2	1.1	3.9	4.0	1.3
		0.4				
<u>\$ 135,144</u>	<u>\$ 344,388</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 35,380	\$ 32,618	25.9%	27.2%	27.0%	26.2%	9.5%
85,000	184,358	84.9	72.8	71.5	62.9	53.5
<u>30,501</u>	<u>506,142</u>	<u>16.9</u>	<u>17.8</u>	<u>22.8</u>	<u>22.5</u>	<u>147.0</u>
<u>\$ 150,881</u>	<u>\$ 723,118</u>	<u>127.7%</u>	<u>117.8%</u>	<u>121.3%</u>	<u>111.6%</u>	<u>210.0%</u>
<u>\$ (15,737)</u>	<u>\$ (378,730)</u>	<u>(27.7)%</u>	<u>(17.8)%</u>	<u>(21.3)%</u>	<u>(11.6)%</u>	<u>(110.0)%</u>
<u>\$ 20,196</u>	<u>\$ 387,368</u>					
\$ 4,459	\$ 8,638					
<u>105,814</u>	<u>97,176</u>					
<u>\$ 110,273</u>	<u>\$ 105,814</u>					
<u>1,079</u>	<u>1,078</u>					
<u>1,066</u>	<u>1,063</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**MARCH 31, 2010**

District Mailing Address - Harris County Municipal Utility District No. 136  
c/o Fulbright & Jaworski, L.L.P.  
1301 McKinney Avenue, 51<sup>st</sup> Floor  
Houston, TX 77010

District Telephone Number - (713) 651-3620

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees for the year ended March 31, 2010	Expense Reimbursements for the year ended March 31, 2010	<u>Title</u>
Neil Polansky	05/08 05/12 (Elected)	\$ 2,100	\$ 30	President
James Hewlett*	05/08 05/12 (Elected)	\$ 1,300	\$ 632	Vice President
Harry Price	04/07 05/10 (Appointed)	\$ 2,200	\$ 840	Second Vice President/ Investment Officer
Jay Singleton	05/06 05/10 (Elected)	\$ 1,600	\$ 83	Secretary
Barry Greer	05/06 05/10 (Elected)	\$ 1,800	\$ 592	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): May 24, 2010.

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 August 13, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

\* James Hewlett resigned effective May 5, 2010. Brent Phelps was appointed to complete Mr. Hewlett's term and was named Assistant Secretary.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**MARCH 31, 2010**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2010</u>	<u>Title</u>
Fulbright & Jaworski, L.L.P. 1301 McKinney Avenue, 51 <sup>st</sup> Floor Houston, TX 77010	12/16/74	\$ 23,455	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	09/15/93	\$ 11,000	Auditor
FMatuska, Inc. 18315 Cransley Houston, TX 77084	7/13/06	\$ 12,178	Bookkeeper
Harris County Appraisal District 13013 Northwest Freeway Houston, TX 77040-6305	Legislative Action	\$ 4,244	Central Appraisal District
Hal R. Gordon 5075 Westheimer, Suite 1190 Houston, TX 77056	05/11/83	\$ 2,138	Delinquent Tax Attorney
AECOM, Inc. 5757 Woodway, Suite 101 West Houston, TX 77057-1599	12/16/74	\$ 33,483	Engineer
Carlin Short 1801 Skyles Rockdale, TX 76567	10/95	\$ -0-	Financial Advisor
SouthWest Water Company 11302 Tanner Road Houston, TX 77041	03/23/82	\$ 278,191	Operator
Bob Leared, RTA 11111 Katy Frwy., Suite 725 Houston, TX 77079	06/12/79	\$ 23,486	Tax Assessor/ Collector

See accompanying independent auditor's report.