

**NORTH HARRIS COUNTY REGIONAL
WATER AUTHORITY**

FINANCIAL STATEMENTS

December 31, 2007 and 2006



Null-Lairson

CERTIFIED PUBLIC ACCOUNTANTS

PROFESSIONAL CORPORATION

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**NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
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Independent Auditors' Report

Board of Directors
North Harris County Regional Water Authority

We have audited the accompanying statements of net assets of the business type activities of North Harris County Regional Water Authority, as of December 31, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, as listed in the table of contents. These financial statements are the responsibility of North Harris County Regional Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of North Harris County Regional Water Authority, as of December 31, 2007 and 2006, and the changes in financial position and cash flows thereof for the years ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 audits were conducted for the purpose of forming an opinion on the North Harris County Regional Water Authority's basic financial statements. The information beginning on page 42 appears as supplementary information. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

Null-Lairson, A.C.

Houston, Texas
May 5, 2008

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MEMBERS: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS,
CPA ASSOCIATES INTERNATIONAL, INC. WITH ASSOCIATED OFFICES IN PRINCIPAL U.S. AND INTERNATIONAL CITIES

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Management's Discussion and Analysis

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NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

December 31, 2007

Using this Annual Report

Within this section of the financial report of the North Harris County Regional Water Authority (the "Authority"), the Authority's Management provides narrative discussion and analysis of the financial activities of the Authority, for the fiscal year ended December 31, 2007. This analysis should be read in conjunction with the basic financial statements that follow this section.

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

- The Authority's basic financial statements;
- Notes to the basic financial statements; and
- Additional supplementary information

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which are comprised of the following: 1) statement of net assets, 2) statement of revenues, expenses and changes in net assets, 3) statement of cash flows and 4) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of changes in the financial position of the Authority.

The statement of revenues, expenses and changes in net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Authority

On the Statements of Net Assets, the difference between assets and liabilities is called net assets. The Authority's net assets at December 31, 2007, were \$13,194,490. Net assets are categorized based on their availability to provide financial resources for the Authority. Net assets that are "Invested in capital assets, net of related debt" represent the Authority's investments in capital assets, less any debt used to acquire those assets that is still outstanding. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. "Restricted" net assets represent amounts that are restricted for future debt service requirements. "Unrestricted" net assets represent amounts available to meet the Authority's future obligations.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
Management's Discussion and Analysis
December 31, 2007

Financial Analysis of the Authority (continued)

The Authority's overall financial position at December 31, 2007 as compared to the two prior years is summarized as follows, based on information contained in the statement of net assets:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 106,620,907	\$ 118,779,859	\$ 128,902,722
Capital assets	<u>184,042,781</u>	<u>164,970,204</u>	<u>154,923,008</u>
Total assets	290,663,688	283,750,063	283,825,730
Current liabilities	1,052,110	762,305	491,314
Long term liabilities	<u>276,417,088</u>	<u>274,657,948</u>	<u>278,305,864</u>
Total liabilities	277,469,198	275,420,253	278,797,178
Net Assets			
Invested in capital assets, net of related debt	(37,978,292)	(33,476,343)	(34,256,626)
Restricted for debt service	5,190,910	7,825,401	14,418,661
Unrestricted	<u>45,981,872</u>	<u>33,980,752</u>	<u>24,866,517</u>
Total net assets	<u>\$ 13,194,490</u>	<u>\$ 8,329,810</u>	<u>\$ 5,028,552</u>

The Authority's net operating income for the year ended December 31, 2007 was \$12,246,230 with net non-operating expenses of \$7,381,550 resulted in an increase in net assets of \$4,864,680. Non-operating revenues and non-operating expenses represented interest income from the Authority's investments and interest expense from the Authority's debt. The increase in net assets was primarily the result of the increase in the pumpage fee, which was effective October 1, 2006. The rate increase is consistent with the Authority's financial planning and budgeting, and is used to satisfy bond covenants and debt service requirements.

A summarized comparison of the Authority's operations for the year ended December 31, 2007 with the previous two years is as follows, based on information in the statement of activities:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 20,748,512	\$ 17,713,495	\$ 13,623,099
Operating expenses	<u>(8,502,282)</u>	<u>(7,142,128)</u>	<u>(4,551,144)</u>
Net operating income	12,246,230	10,571,367	9,071,955
Net non-operating revenue (expense)	<u>(7,381,550)</u>	<u>(7,270,109)</u>	<u>(6,959,040)</u>
Change in net assets	4,864,680	3,301,258	2,112,915
Net assets, beginning of year	<u>8,329,810</u>	<u>5,028,552</u>	<u>2,915,637</u>
Net assets, end of year	<u>\$ 13,194,490</u>	<u>\$ 8,329,810</u>	<u>\$ 5,028,552</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

December 31, 2007

Capital Assets

As of December 31, 2007, the Authority had invested \$184,042,781 (net of accumulated depreciation) in capital assets. These capital assets primarily consist of land, construction in progress, infrastructure and the Authority's interest in treated water facilities and water transmission facilities.

The Authority's capital assets at December 31, 2007, as compared to the two previous years are summarized as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital assets not being depreciated:			
Land and ROW acquisition	\$ 13,539,105	\$ 9,810,939	\$ 8,104,474
Construction in progress	<u>23,636,984</u>	<u>3,932,596</u>	<u>58,028,461</u>
Total capital assets not being depreciated	37,176,089	13,743,535	66,132,935
Capital assets being depreciated or amortized:			
Interest in treated water facilities	52,454,277	52,454,277	52,454,277
Interest in transmission facilities	26,064,086	29,187,152	29,187,152
Infrastructure	77,978,492	75,682,444	10,451,304
Furniture, computers & equipment	<u>141,361</u>	<u>141,361</u>	<u>134,693</u>
	156,638,216	157,465,234	92,227,426
Less accumulated depreciation and amortization	<u>(9,771,524)</u>	<u>(6,238,565)</u>	<u>(3,437,353)</u>
Total capital assets being depreciated or amortized	<u>146,866,692</u>	<u>151,226,669</u>	<u>88,790,073</u>
Total capital assets	<u>\$ 184,042,781</u>	<u>\$ 164,970,204</u>	<u>\$ 154,923,008</u>

During the current year, \$26,922,790 additional capital assets were added to the Authority. The additional capital assets consisted primarily of land, the completion of the Supervisory Control and Data Acquisition System (SCADA) and construction in progress.

Construction has been completed on several projects related to the Groundwater Reduction Plan. Completed projects in the current period include the Supervision Control and Data Acquisition (SCADA) System (project 101A). The approximate cost for this completed project is \$1.4 million.

Capital assets include construction in progress on the following projects:

- Spears Road Regional Pump Station (Project 2)
- TC Jester Distribution Line (Project 10)
- TC Jester / Ella Distribution Line (Project 11)
- Cypresswood Distribution Line (Project 14)
- Bourgeois Distribution Line (Project 15)
- Cutten Distribution Line – Phase II (Project 16)
- 2010 Transmission Line (Project 17)
- GTP System Improvements (Project 100)
- Geographical Information System (GIS) (Project 200)

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

December 31, 2007

Capital Assets (continued)

The projects that are not complete as of fiscal year end, along with related engineering fees, have been recorded as construction in progress in the statement of net assets. Engineering fees related to various other projects that are in the preliminary phases have also been recorded as construction in progress in the statement of net assets. No depreciation has been recorded for construction in progress.

Long-Term Obligations

The Authority's total long term obligation at December 31, 2007, as compared to the previous two years is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital contributions			
2003	\$ 32,573,177	\$ 32,573,177	\$ 32,573,177
2005	<u>14,675,978</u>	<u>14,675,978</u>	<u>14,675,978</u>
	47,249,155	47,249,155	47,249,155
Revenue bonds			
Series 2003	124,685,000	124,685,000	124,685,000
Series 2005	93,875,000	93,875,000	93,875,000
Unamortized bond premium	8,065,916	8,358,911	8,654,906
Unamortized bond discount	<u>(1,660,560)</u>	<u>(1,723,307)</u>	<u>(1,786,054)</u>
	224,965,356	225,195,604	225,428,852
Accrued compensated absences	<u>133,564</u>	<u>134,861</u>	<u>92,190</u>
	<u>\$ 272,348,075</u>	<u>\$ 272,579,620</u>	<u>\$ 272,770,197</u>

During 2007, the Authority has continued to comply with all its bond covenants. See Note 5 for additional information.

During the year, the Authority transferred the net amount of \$9,000,000 from the Operating Fund to the Coverage Fund, in order to minimize the increase in pumpage fees necessary to satisfy the additional bond and rate covenants.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
Management's Discussion and Analysis
December 31, 2007

Next Year's Budget

The Authority's 2008 budget as compared to actual results for 2007 is as follows:

	<u>2007 Actual</u>	<u>2008 Budget</u>
Operating revenues	\$ 20,748,512	\$ 24,549,200
Operating expenses	<u>(8,502,282)</u>	<u>(4,451,042)</u>
Net operating income	12,246,230	20,098,158
Interest revenues	5,795,884	2,000,000
Interest expense	<u>(13,177,434)</u>	<u>(13,407,682)</u>
Net non-operating expense	(7,381,550)	(11,407,682)
Change in net assets	4,864,680	8,690,476
Beginning net assets	<u>8,329,810</u>	<u>13,194,490</u>
Ending net assets	<u>\$ 13,194,490</u>	<u>\$ 21,884,966</u>

The Authority budgeted more revenues due to the increase in pumpage fees from \$0.84 to \$0.99, effective October 1, 2007, and less operating expenses for professional fees.

Economic Factors

The Harris-Galveston Subsidence District (HGSD) groundwater reduction requirements mandate that construction will begin on the infrastructure required to meet the 2010 conversion target of thirty percent reduction in groundwater use, along with requirements for higher conversion target thresholds which will take effect through the year 2030. The Authority's approved Groundwater Reduction Plan (GRP) defines how it will comply with this requirement.

In October 2003, the Authority adopted its first Capital Improvement Plan (the 2004-2005 "CIP"). The primary focus of the first CIP was the definition and construction of the infrastructure necessary to allow implementation of the Groundwater Transfer Program (the "GTP").

As the GRP was being developed, it became apparent that some water districts within the Authority were experiencing difficulty with either water quality or water quantity to meet accelerating demand. The dilemma facing these districts was to decide whether or not to drill a new well that may be minimally used once they are converted to surface water in 2010. In response, the Authority implemented a program to share the existing groundwater capacity by connecting the districts that had surplus capacity in their wells to districts that needed additional water capacity now. The GTP involved constructing portions of the 2010 distribution lines earlier than originally planned. The initial components of the GTP were completed and the GTP was placed in operation in January 2006.

The first two CIP's primary focus was the definition and construction of the infrastructure necessary to allow implementation of the GTP. The next two current CIPs outlined and initiated the implementation of a broad-based program to provide the remainder of the infrastructure necessary to allow the conversion to surface water in 2010. The 2008-2009 CIP continues and completes that program and quantifies the funding needed to allow construction of the required infrastructure to enable the timely conversion to surface water in 2010.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

December 31, 2007

Economic Factors (continued)

The 2008-2009 Capital Improvement Plan (the "Plan") continues the systematic planning and development process begun when the Authority's Board adopted the first CIP in 2003. The primary focus of the Plan is to provide for: (1) the remaining components of the system needed to provide surface water to districts in 2010 and (2) the procurement of sites/easements for several of the key infrastructure components which will be needed to continue implementation of the GRP in 2020.

Some of the more significant activities provided for in the Plan are:

- Complete definition of the alignment, secure necessary easements, complete design and construct the remaining 2010 distribution lines and district connections
- Secure necessary easements, complete design and construct the 2010 Transmission Line from the Greens Road water line to the Authority's distribution system (Project 1A)
- Complete design and construct the Spears Road Regional Pump Station
- Complete design and construct the Louetta Regional Pump Station
- Complete the evaluation of the need and as need is defined, locate, design and construct and/or purchase regional water wells
- Define, design and construct Supervisory Control and Data Acquisition (SCADA) System to enable efficient operation of the 2010 system
- Provide infrastructure to areas adjacent to the original service area thereby allowing a practical expansion of the area which will receive surface water in 2010
- Finalize the alignment of the portion of the 2020 transmission line generally north of Beltway 8 from just west of US Highway 59 to State Highway 249 and secure the necessary easements
- Pay the final component of the capital cost for the 31 MGD allocation of water from the City of Houston and funds to increase the Authority's allocation up to 36 MGD
- Identify and purchase the site for each of the three 2020 regional water plants and two 2020 regional pump stations
- Reuse program participation
- Provide professional services to perform the wide variety of activities required to implement the CIP

The Plan has been developed using the best information currently known about the scope of each project and cost information from a variety of sources including cost experience from the Authority's projects completed to date. While the Authority does have some history in terms of cost experience, its cost base is still evolving in several areas. As such, the following points are offered so that the implementation of this CIP may be kept in perspective:

- Inasmuch as a large portion of the system is currently under design, there is the possibility that conditions could be uncovered which impact the costs of the project(s)
- Real estate and construction costs can be and are influenced by variables over which the Authority has no control
- It is common to experience unexpected costs during the implementation of large public works projects; provision of contingency amounts is the most practical way to attempt to address this issue and such contingencies have been provided for in the Plan

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

December 31, 2007

Economic Factors (continued)

While the 2004-2005 CIP used the best cost estimation available at the time, it did not have the benefit of actual prior Authority project experience on which to build. Additionally, the costing was based on the general project definition presented in the GRP. As the actual design of the projects proceeded and the criteria within which the Authority needed to develop its projects became clearer, the definition of the projects was sharpened. As a result, the ability to estimate project costs has improved. The estimated costs included in the Plan have been updated and /or based, where practical, on experience gained thus far on actual Authority projects.

As seen in the following table, the estimated cost to implement the Plan is approximately \$233.6 million. Approximately \$29.6 million will be funded by the proceeds from the sale of the Authority's 2003 and 2005 Senior Lien Revenue Bonds, capital contributions and interest earned (collectively called "Revenue Bonds"). It is currently anticipated that the remaining \$204 million will be funded with a future bond sale in 2008.

Through September 2007, approximately 85% of the Revenue Bonds earmarked for the implementation of the CIP have been authorized. The remainder of those funds is scheduled to be authorized in early 2008.

Capital Improvement Plan Summary 2008-2009

Category	Authorizations		Planned Authorizations		Project Total
			Fiscal Year		
	1/1/03-9/30/07	10/1/07-12/31/07	2008	2009	
Acquisition	\$ 13,733,000	\$ 2,975,000	\$ 13,871,000	\$	\$ 30,579,000
Design	26,813,000	8,877,000	6,966,000	2,700,000	45,356,000
Construction	91,066,000	5,533,000	148,358,000		244,957,000
Equipment					
Other	31,360,000	400,000	6,209,000	37,716,000	75,685,000
Total Authorizations	<u>\$ 162,972,000</u>	<u>\$ 17,785,000</u>	<u>\$ 175,404,000</u>	<u>\$ 40,416,000</u>	<u>\$ 396,577,000</u>
Source of Funds					
Revenue Bonds	\$ 162,972,000	\$ 17,785,000	\$ 10,662,000	\$ 1,100,000	\$ 192,519,000
Future BANS/Bonds			164,742,000	39,316,000	204,058,000
Total Funds	<u>\$ 162,972,000</u>	<u>\$ 17,785,000</u>	<u>\$ 175,404,000</u>	<u>\$ 40,416,000</u>	<u>\$ 396,577,000</u>

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to the Financial Assistant, North Harris County Regional Water Authority, 3648 FM 1960 West, Suite 110, Houston, Texas 77068.

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Basic Financial Statements

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
Statements of Net Assets
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current assets		
Cash	\$ 186,489	\$ 34,339
Investments	43,205,986	34,171,840
Due from the City of Houston (see Note 13)	3,123,067	
Accounts receivable other	160,690	180,425
Total current assets	<u>46,676,232</u>	<u>34,386,604</u>
Noncurrent assets		
Restricted cash and investments	56,305,896	80,619,353
Unamortized bond issuance costs, net	3,638,779	3,773,902
Capital assets not being depreciated	37,176,089	13,743,535
Capital assets net of accumulated depreciation	146,866,692	151,226,669
Total noncurrent assets	<u>243,987,456</u>	<u>249,363,459</u>
Total assets	<u>290,663,688</u>	<u>283,750,063</u>
Liabilities		
Current liabilities		
Accounts payable	556,549	246,966
Other payables	4,247	24,025
Interest payable on bonds	491,314	491,314
Total current liabilities	<u>1,052,110</u>	<u>762,305</u>
Noncurrent liabilities		
Accounts payable from restricted assets	3,360,273	2,032,159
Retainage payable from restricted assets	708,740	46,169
Accrued compensated absences	133,564	134,861
Capital contributions due in more than one year	47,249,155	47,249,155
Bonds payable due in more than one year (net of unamortized bond premium and discount)	224,965,356	225,195,604
Total noncurrent liabilities	<u>276,417,088</u>	<u>274,657,948</u>
Total liabilities	<u>277,469,198</u>	<u>275,420,253</u>
Net assets		
Invested in capital assets, net of related debt	(37,978,292)	(33,476,343)
Restricted for debt service	5,190,910	7,825,401
Unrestricted	45,981,872	33,980,752
Total net assets	<u>\$ 13,194,490</u>	<u>\$ 8,329,810</u>

See Notes to Financial Statements.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues		
Charges for services		
Pumpage fees	\$ 19,680,186	\$ 16,784,075
Water sales	1,055,286	928,314
Other	13,040	1,106
Total operating revenues	<u>20,748,512</u>	<u>17,713,495</u>
Operating expenses		
Personnel	1,133,978	1,106,957
Professional fees	1,494,284	1,556,567
Purchased water	960,666	725,625
Contracted services	534,713	213,135
Occupancy and office	439,071	339,591
Other	270,489	262,918
Depreciation and amortization	3,669,081	2,937,335
Total operating expenses	<u>8,502,282</u>	<u>7,142,128</u>
Net operating income	12,246,230	10,571,367
Non-operating revenues (expenses)		
Interest and fiscal charges expense	(13,177,434)	(13,171,672)
Interest income	5,795,884	5,901,563
Net non-operating revenues (expenses)	<u>(7,381,550)</u>	<u>(7,270,109)</u>
Change in net assets	4,864,680	3,301,258
Total net assets - beginning	<u>8,329,810</u>	<u>5,028,552</u>
Total net assets - ending	<u>\$ 13,194,490</u>	<u>\$ 8,329,810</u>

See Notes to Financial Statements.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Statements of Cash Flows

For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Receipts from customers	\$ 20,768,247	\$ 18,452,149
Payments for personnel costs	(1,135,275)	(1,064,286)
Payments to contractors and vendors	(3,409,418)	(2,826,845)
Net cash provided by operating activities	<u>16,223,554</u>	<u>14,561,018</u>
Cash flows from capital and related financing activities		
Interest paid	(13,408,681)	(13,406,420)
Acquisition and construction of capital assets	(23,737,918)	(16,305,747)
Net cash provided (used) by capital and related financing activities	<u>(37,146,599)</u>	<u>(29,712,167)</u>
Cash flows from investing activities		
Interest received	5,795,884	5,901,563
Net cash provided by investing activities	<u>5,795,884</u>	<u>5,901,563</u>
Net decrease in cash and cash equivalents	(15,127,161)	(9,249,586)
Balances -beginning of the year	<u>114,825,532</u>	<u>124,075,118</u>
Balances - end of the year	<u>\$ 99,698,371</u>	<u>\$ 114,825,532</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,246,230	\$ 10,571,367
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	3,669,081	2,937,335
Change in assets and liabilities:		
Increase in accounts receivable	19,735	738,654
Increase in accounts payable	289,805	270,991
Decrease in compensated absences	(1,297)	42,671
Total adjustments	<u>3,977,324</u>	<u>3,989,651</u>
Net cash provided by operating activities	<u>\$ 16,223,554</u>	<u>\$ 14,561,018</u>
Cash and cash equivalents per balance sheet:		
Cash	\$ 186,489	\$ 34,339
Investments	43,205,986	34,171,840
Restricted cash and investments	56,305,896	80,619,353
	<u>\$ 99,698,371</u>	<u>\$ 114,825,532</u>

See Notes to Financial Statements.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 1- Summary of Significant Accounting Policies

The North Harris County Regional Water Authority (the "Authority") was created in 1999 under Article 16, Section 59 of the Texas Constitution by House Bill 2965, as passed by the 75th Texas Legislature and as amended (the "Act"). The Authority began operations in October 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater and for the reduction of groundwater withdrawals.

The Authority may charge a fee, based on the amount of water pumped from the well, to the owner of wells located in the Authority's boundaries, unless exempted. The fees established by the Board of Directors must be sufficient to: (1) achieve water conservation, prevent waste of water, serve as a disincentive to pumping groundwater and make available alternative water supplies; and (2) enable the Authority to meet operation and maintenance expenses and pay the principal and interest on any debt issued by the Authority.

The accompanying financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America. The following is a summary of the most significant policies:

Reporting Entity

The Authority is a political subdivision of the State of Texas governed by an elected five member board. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the Authority's financial reporting entity. No other entities, organizations or functions have been included in the Authority's financial reporting entity. Additionally, as the Authority is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the Authority's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Authority is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the Authority's financial reporting entity status is that of a primary government are: that it has a separate governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additional prescribed criteria under generally accepted accounting principles include; considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Basic Financial Statements

The basic financial statements include the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. These statements focus on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from these activities for the fiscal year.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 1- Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

The Authority follows proprietary fund accounting and reporting requirements, which utilize the economic resources measurement focus and the accrual basis of accounting. The Authority follows generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standard Board's (FASB) standards issued prior to November 30, 1989. The Authority has elected not to apply FASB pronouncements issued after that date.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for pumpage fees. Operating expenses include the cost of services, administrative expenses and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net assets are classified into the following three components:

- 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, notes, capital contribution credits or other borrowings.
- Restricted – this component of net assets consists of constraints placed on net assets used through external constraints imposed by creditors, grantors, contributors or laws or regulations of other governments or through contractual provisions or enabling legislation.
- Unrestricted – this component of net assets consists of net assets that do not meet the definition of the previous two categories.

Cash and Investments

The Authority's cash and investments consist of cash on hand, demand deposits and balances in TexPool, TexPool Prime and TexSTAR accounts, which are public funds investment pools. Amounts in these pools are stated at amortized cost, rather than market value. For the purposes of the statement of cash flows, the Authority considers investments in investment pools to be cash equivalents.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by an allowance for amounts considered uncollectible. At December 31, 2007 and 2006 an allowance of \$34,365 was provided for possible uncollectible accounts.

Restricted Assets

Proceeds of bonds or other resources set aside for specific purposes are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

Capital Assets

The Authority defines capital assets as assets with an individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets, which include land, right of way acquisition costs, infrastructure and interest in infrastructure assets constructed by the City of Houston, are reported at historical cost. Donated assets are recorded at their estimated fair value at the date of donation.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 1- Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Computer and software	3
Furniture and equipment	5-7
Infrastructure	20-45

Long Term Obligations

Long term debt and other long term obligations are reported as liabilities on the Authority's statement of net assets. Bonds payable are reported net of any applicable discount or premium. Bond issuance costs are reported as a deferred charge (i.e., a non-current asset) and are amortized over the life of the bonds to which they relate using the straight line method, which approximates the interest method.

Compensated Employee Absences

Compensated employee absences, which include vacation, compensatory time and sick leave, are accumulated during employment and are accrued when earned. The rate at which an employee earns benefits will vary depending upon their employment status, years employed and position with the Authority. Full-time employees are eligible for vacation time after six months employment and earn between 10 and 25 days vacation per year. At December 31, up to 40 hours of vacation leave is automatically converted to compensatory time. Employees who work at least 32 hours per week earn sick leave at the rate of 3-5 hours per pay period, not to exceed 480 hours. Upon termination, employees are paid for accumulated vacation and compensatory time. The General Manager is also entitled to receive compensation for accrued sick leave.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Note 2 – Cash and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the Authority's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The Authority's written investment policy establishes additional requirements for collateralization of deposits. As of December 31, 2007, all of the Authority's deposits are insured or fully collateralized.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 2 – Cash and Investments (continued)

Restricted Cash

Cash and investments were restricted for the following purposes at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Bond reserves	\$ 5,682,224	\$ 8,316,715
Capital improvements	<u>50,623,672</u>	<u>72,302,638</u>
	<u>\$ 56,305,896</u>	<u>\$ 80,619,353</u>

Investments

The Authority is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (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, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

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

As of December 31, 2007 and 2006, the Authority's investments consist of the following:

Type	<u>2007</u>		<u>2006</u>	
	Carrying Value	Percentage of Total	Carrying Value	Percentage of Total
TexPool	\$ 16,099,020	16%	27,082,612	24%
TexPool Prime	36,894,808	37%	48,416,559	42%
TexSTAR	<u>46,411,379</u>	<u>47%</u>	<u>39,018,691</u>	<u>34%</u>
Total	<u>\$ 99,405,207</u>	<u>100%</u>	<u>\$ 114,517,862</u>	<u>100%</u>

	<u>Rating</u>	<u>Rating</u>
TexPool	AAA	AAA
TexPool Prime	AAA	AAA
TexSTAR	AAA	AAA

	<u>Weighted Average Maturity</u>	<u>Weighted Average Maturity</u>
TexPool	79 days	50 days
TexPool Prime	27 days	34 days
TexSTAR	Less than 90 days	Less than 90 days

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 2 – Cash and Investments (continued)

Investment Pools

The Authority participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price. Accordingly, the fair value of the Authority’s position in TexPool is the same as the value of TexPool shares.

The Authority also participates in TexSTAR, which also operates as 2a-7 like investment pool. TexSTAR is managed by First Southwest Asset Management and JP Morgan Chase. As with TexPool, the Authority’s position in the pool is the same as the value of the Authority’s share in that pool.

Investment Credit and Interest Rate Risk

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

Note 3 – Capital Assets

A summary of changes in capital assets during the year ended December 31, 2007, follows:

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Capital assets not being depreciated:				
Land and ROW acquisition	\$ 9,810,939	\$ 3,728,166	\$	\$ 13,539,105
Construction in progress	3,932,596	20,898,576	(1,194,188)	23,636,984
Total capital assets not being depreciated	13,743,535	24,626,742	(1,194,188)	37,176,089
Capital assets being depreciated or amortized:				
Interest in treated water facilities	52,454,277			52,454,277
Interest in transmission facilities Infrastructure	29,187,152		(3,123,066)	26,064,086
Furniture, computers & equipment	75,682,444	2,296,048		77,978,492
Less accumulated depreciation and amortization	141,361			141,361
	(6,238,565)	(3,602,360)	69,401	(9,771,524)
Total capital assets being depreciated or amortized	151,226,669	(1,306,312)	(3,053,665)	146,866,692
Total capital assets	\$ 164,970,204	\$ 23,320,430	\$ (4,247,853)	\$ 184,042,781

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 3 – Capital Assets (continued)

The Authority had the following contractual commitments for construction projects at December 31, 2007:

<u>Contract</u>	<u>Contractual Commitment</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
Construction of 16" and 30" water transmission line to serve Harris County Municipal Utility District No. 367 and Harris County Municipal Utility District No. 368 - Project 6A-1	\$ 3,883,276	\$	\$ 3,883,276
Construction of 48" / 42" water line along T.C. Jester Boulevard from Bammel North Houston Drive to Ivy Falls Drive and construction of 12" water line connections to the Northwest Harris County Municipal Utility District No. 20 and Harris County Municipal Utility District No. 44 water plants - Project 10A	7,187,464	6,295,908	891,556
Construction of 42" Water line along T.C. Jester Boulevard, Cypresswood Drive and Spring Gully from Ivy Falls Drive to Theiss Gully and a 20" water line along Cypresswood Drive from Spring Gully to Cypress-Klien Utility District Water Plant - Project 10B	4,588,436	3,485,723	1,102,713
Construction of 36" water line along Louetta Road from the Burlington Northern Santa Fe Railroad tracks to Squyres Road - Project 15A	8,563,220	4,811,806	3,751,414
Total	<u>\$ 24,222,396</u>	<u>\$ 14,593,437</u>	<u>\$ 9,628,959</u>

The Authority has recorded an additional \$8,331,729 for engineering fees, \$708,740 for retainage and \$3,078 for electrical costs in construction in progress.

Note 4 - Leases

In 2000, the Authority entered into a lease for office space. The term of the lease was for five years. The lease was amended effective November 1, 2005 and will terminate on January 31, 2011. The Authority may terminate the lease anytime after thirty-six months, by giving twelve months written notice and by paying a lease termination penalty of \$19,500. The Authority has also entered into various leases for office equipment. The Authority paid \$100,970 under these leases during the current period. The annual commitments for leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
2008	\$ 103,439
2009	100,972
2010	106,844
2011	8,895
Total	<u>\$ 320,150</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 5 – Long -Term Obligations

The Authority’s long term obligations consist of revenue bonds, capital contributions (see Note 6) and compensated absences.

Senior Lien Revenue Bonds

The Authority issues Senior Lien Revenue Bonds (Senior Bonds) primarily to finance the design, acquisition and construction of regional water production, transmission, pumping, storage and distribution systems. The principal and interest on the Authority’s bonds will be repaid from net revenues.

Long-term debt, as reported on the financial statements for years ending 2007 and 2006 is comprised of the following:

	<u>2007</u>	<u>2006</u>
Bonds Payable	\$ 218,560,000	\$ 218,560,000
Unamortized premiums	8,065,916	8,358,911
Unamortized discounts	<u>(1,660,560)</u>	<u>(1,723,307)</u>
Total	<u>\$ 224,965,356</u>	<u>\$ 225,195,604</u>
Due within one year	<u>\$ 0</u>	<u>\$ 0</u>

Bonds payable at December 31, 2007 are comprised of the following issues:

<u>Series</u>	<u>Amounts Outstanding</u>	<u>Original Issue Amount</u>	<u>Interest Rates</u>	<u>Maturity Date, Serially, Beginning /Ending</u>	<u>Interest Payment Dates</u>	<u>Callable Date</u>
2003	\$ 124,685,000	\$ 124,685,000	5.00% - 5.25%	December 15, 2010/2033	June 15 / December 15	December 15, 2013
2005	93,875,000	93,875,000	3.50% - 5.25%	December 15, 2010/2033	June 15 / December 15	December 15, 2014
	<u>\$ 218,560,000</u>					

There were no changes in the principal amount of long term bonds during the year.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 5 – Long -Term Obligations (continued)

The Senior Bonds are secured by a lien on and pledge of the net revenues of the Authority. As additional security, the bond resolutions required the establishment of an Interest and Sinking Fund, a Reserve Fund and a Coverage Fund. A description of each fund follows:

- Interest and Sinking Fund - Used to accumulate the funds required to make the scheduled payments of debt service on the Senior Bonds. Money in the Interest and Sinking Fund shall be used solely for the purpose of paying principal, interest and any bank charges and other costs associated with payments of debt service on the Senior Bonds. Investments restricted for this fund as of December 31, 2007 were \$5,190,910.
- The Reserve Fund –Used (to the extent that amounts on deposit in the Interest and Sinking Fund and the Coverage Fund are insufficient) to pay the principal and interest on the Senior Bonds as it becomes payable. An insurance surety bond is on hand to secure performance and satisfy bond covenants.
- The Coverage Fund – Used to accumulate funds equal to 25% of the maximum annual debt service requirements for outstanding debt in any fiscal year. As of December 31, 2007, investments restricted by bond covenants for this fund were \$3,916,529, with an additional \$42,076,658 designated by the Authority (see Note 7).
- Operation and Maintenance Reserve Fund – Funds from gross revenues of the Authority will be deposited on or before the last business day of the month into this account. Investments restricted for this fund were \$825,000 as of December 31, 2007.

The Authority was in compliance with the bond covenants as of December 31, 2007. See Note 16 concerning a material subsequent event related to the Reserve Fund.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 5 – Long -Term Obligations (continued)

As of December 31, 2007, the debt service requirements on the Senior Bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$	\$ 11,054,556	\$ 11,054,556
2009		11,054,556	11,054,556
2010	4,605,000	11,054,556	15,659,556
2011	4,810,000	10,851,981	15,661,981
2012	5,025,000	10,635,356	15,660,356
2013	5,275,000	10,384,106	15,659,106
2014	5,545,000	10,115,156	15,660,156
2015	5,835,000	9,824,044	15,659,044
2016	6,145,000	9,517,706	15,662,706
2017	6,470,000	9,195,094	15,665,094
2018	6,810,000	8,855,418	15,665,418
2019	7,165,000	8,497,893	15,662,893
2020	7,540,000	8,121,731	15,661,731
2021	7,935,000	7,725,881	15,660,881
2022	8,355,000	7,309,293	15,664,293
2023	8,775,000	6,883,293	15,658,293
2024	9,225,000	6,435,868	15,660,868
2025	9,685,000	5,974,618	15,659,618
2026	10,175,000	5,490,368	15,665,368
2027	10,680,000	4,981,618	15,661,618
2028	11,215,000	4,447,618	15,662,618
2029	11,775,000	3,886,868	15,661,868
2030	12,360,000	3,298,118	15,658,118
2031	12,980,000	2,680,118	15,660,118
2032	13,635,000	2,031,118	15,666,118
2033	14,315,000	1,349,368	15,664,368
2034	5,960,000	626,531	6,586,531
2035	6,265,000	321,081	6,586,081
Totals	<u>\$ 218,560,000</u>	<u>\$ 192,603,912</u>	<u>\$ 411,163,912</u>

Principal and interest payments on the Senior Bonds will be provided through the payment of pumpage fees by utility districts and non-exempt well owners.

Compensated Absences

The Authority’s liability for compensated absences changed as follows:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 134,861	\$ 92,190
Increase in liability	133,564	134,861
Decrease in liability	<u>(134,861)</u>	<u>(92,190)</u>
Balance at end of year	<u>\$ 133,564</u>	<u>\$ 134,861</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 6 – Capital Contributions

In 2003, the Authority entered into contracts with twenty-four Municipal Utility Districts (MUDs) to provide funds to pay capital expenditures of the Authority’s system. Each MUD has paid a Capital Contribution based on a percentage of its pro-rata share of the total groundwater production for all water utilities during the calendar year 2002. Capital contributions of \$32,573,177 were made to the Authority in the 2003 fiscal year. The participating MUDs began receiving contribution credits against their individual pumpage fees distributed over the life of the Series 2003 Senior Bonds beginning with the 2003 third quarter pumpage fees. Any amounts remaining plus accrued interest at the end of the capital contribution expiration date will be credited against any amounts owed to the Authority by the MUDs or paid to the MUDs by the Authority.

In 2005, the Authority entered into agreements with nineteen MUDs. Capital contributions of \$14,675,978 were made to the Authority in the 2005 fiscal year. The participating MUDs began receiving contribution credits against their individual pumpage fees distributed over the life of the Series 2005 Senior Bonds beginning with the 2005 third quarter pumpage fees. As with the 2003 contribution credits, any amounts remaining plus accrued interest at the end of the capital contribution date will be credited against any amounts owed to the Authority by the MUDs or paid to the MUDs by the Authority.

Future contribution credits including interest at the effective interest rate of the 2003 Senior Bonds as of December 31, 2007 are as follows:

<u>Year</u>	<u>Contribution Credits</u>	<u>Year</u>	<u>Contribution Credits</u>
2008	\$ 1,647,402	2021	\$ 2,373,821
2009	1,647,402	2022	2,373,821
2010	2,373,821	2023	2,373,821
2011	2,373,821	2024	2,373,821
2012	2,373,821	2025	2,373,821
2013	2,373,821	2026	2,373,821
2014	2,373,821	2027	2,373,821
2015	2,373,821	2028	2,373,821
2016	2,373,821	2029	2,373,821
2017	2,373,821	2030	2,373,821
2018	2,373,821	2031	2,373,821
2019	2,373,821	2032	2,373,821
2020	2,373,821	2033	2,373,821
		Totals	<u>\$ 60,266,508</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 6 – Capital Contributions (continued)

Future contribution credits including interest at the effective interest rate of the 2005 Senior Bonds as of December 31, 2007 are as follows:

<u>Year</u>	<u>Contribution Credits</u>	<u>Year</u>	<u>Contribution Credits</u>
2008	\$ 705,724	2022	\$ 1,000,879
2009	705,724	2023	1,000,879
2010	1,000,879	2024	1,000,879
2011	1,000,879	2025	1,000,879
2012	1,000,879	2026	1,000,879
2013	1,000,879	2027	1,000,879
2014	1,000,879	2028	1,000,879
2015	1,000,879	2029	1,000,879
2016	1,000,879	2030	1,000,879
2017	1,000,879	2031	1,000,879
2018	1,000,879	2032	1,000,879
2019	1,000,879	2033	1,000,879
2020	1,000,879	2034	1,000,879
2021	1,000,879	2035	1,000,879
		Totals	<u>\$ 27,434,302</u>

Note 7 – Unrestricted Net Assets

Included in the Authority’s unrestricted net assets of \$45,981,872, is \$42,076,658 which the Authority has designated as additional bond reserves. These funds have been deposited in the Coverage Fund discussed in Note 5.

Note 8 – Risk Management

The Authority is exposed to various risks related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority’s risk management program encompasses various means of protecting the Authority against loss by obtaining property, casualty and liability coverage through commercial insurance carriers. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 9 – Deferred Compensation Plans

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan is available and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by the International City Management Association - Retirement Corporation (ICMA-RC).

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 10 – Pension Plan

The Authority has established the North Harris County Regional Water Authority Qualified Pension Plan 401(a) (the “Plan”). The Plan covers all employees. Under the terms of the Plan, active participants become 100% vested on the fifth anniversary of employment. Participants are eligible for payment of benefits upon reaching age 65, becoming disabled or separating from service for any other reason. Benefits are distributed in accordance with the instructions of the participants. The Board of Directors appointed ICMA-RC to serve as Plan administrator and trustee. The Plan provides for a minimum Authority contribution of 7% of total current covered payroll. At December 31, 2007, all of the Authority’s employees were members of the Plan. Non-vested contributions are immaterial to total contributions at December 31, 2007. Vested contributions are solely the possession of participating employees. Total current payroll was \$958,479 for the year ended December 31, 2007, of which \$933,429 was covered under the Plan. Employer contributions to the Plan for the year ended December 31, 2007 were \$130,163.

In 2003, the Authority established an additional 401(a) plan for management employees only. It is identical to the above Plan with the following exceptions: 1) management employees are fully vested on the second anniversary of employment and 2) the Plan provides for a minimum Authority contribution of 25% for the current year annual covered payroll of the General Manager. The total payroll and employer contributions for this plan are included in the totals above.

Note 11 – Water Supply Contracts

In December 2002, the Authority entered into a forty year contract with the City of Houston (Houston) for the purchase of capacity in certain untreated water facilities and treated water facilities, including transmission facilities, of Houston. Under the terms of the contract, Houston will provide surface water to the Authority at a point of delivery to be located near Highway 59 and Beltway 8.

The contract stipulates that the Authority will purchase capacity, in phases, in Houston’s surface water system. Houston will be responsible for the design, construction, ownership, maintenance and operation of both treated and untreated water facilities prior to a mutually agreeable delivery point(s). The Authority will be responsible for the design, construction, ownership, maintenance and operation of all facilities located beyond the point of delivery.

During 2003, the Authority made its first payment of \$51,492,844 to Houston for the purchase of capacity in Houston’s treated water facilities and transmission facilities constructed prior to the effective date of the contract.

The Authority will pay Houston, on a monthly basis, its pro-rata share of operating and maintenance costs of the treated and untreated water facilities and transmission lines based on an annual operating budget once it begins receiving water. Such monthly payments will include an amount adequate to establish an operating reserve. The contract also provides the Authority with the option to purchase additional capacity in the future.

In March 2003, the Authority entered into an Interim Treated Water Supply Contract with Houston. Subject to the terms of this contract, the Authority entered into an agreement with Emerald Forest Utility District (the “District”) for water supply. In the 2003 fiscal year, the Authority reimbursed the District \$36,694 for the cost of constructing a water line to Houston’s line. During the current year, the Authority paid Houston \$52,101 on behalf of the District for purchased water.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 12 – Agreement for Joint Financing of Facilities

In November 2003, the Authority entered into an Agreement for Joint Financing, Design, Construction, Operation and Maintenance of Surface Water Transmission Facilities (Joint Financing Agreement) with Harris County Municipal Utility District No. 33 (No. 33) for the Central Harris County Water Users Consortium, now Central Harris County Regional Water Authority (CHCRWA), a consortium of conservation and reclamation districts established and operating pursuant to the Central Harris County Water Users Consortium Agreement, dated December 13, 2002. Under the terms of the Joint Financing Agreement, the Authority will construct a sixty-inch water transmission line that is currently planned to commence at the point of delivery, as defined in the Authority's Water Supply Contract with Houston (see Note 11) to enable the Authority and the CHCRWA to receive surface water from the Northeast Water Purification Plant. The joint use facilities shall be completed no later than December 31, 2009.

The CHCRWA requires a means to receive surface water from Houston for delivery to the Member Districts and desires to participate in the financing, design, construction, operation and maintenance of the proposed water transmission line. The Authority will hold title to the joint use facilities and the CHCRWA will pay a pro-rata share of the costs of right-of-way acquisition, design and construction costs for the joint use facilities. The CHCRWA will escrow funds with the Authority for each phase of the construction and design. When each phase is complete, a summary of costs will be compiled and any excess or deficiency will be settled at that time. The CHCRWA will also be responsible for its pro-rata share of operation and maintenance costs of the facilities and will be required to establish an operation and maintenance cost reserve with the Authority, based on operation and maintenance budgets to be prepared annually. The estimated cost of the transmission line was \$63,681,140, with the Authority's share being 90.38% and the CHCRWA share being 9.62% of such costs.

Note 13 – Interlocal Agreements

Greens Road Water Line. The Authority entered into an interlocal agreement with the City of Houston (Houston), effective March 11, 2005, for the term of forty years, for the design and construction of the Greens Road water line that will provide the water transmission capacity necessary to serve the needs of Houston and the Authority. Houston has provided estimates to the Authority for real estate costs, engineering costs and contingencies for the project as well as the manner of calculation of such costs and the parties pro rata share of such costs. In the 2005 fiscal year, the Authority paid Houston its pro rata share of estimated construction costs and contingencies in the amount of \$29,187,152. Subsequent to year end, Houston performed a final accounting on the project which resulted in a refund to the Authority in the amount of \$3,123,067, which is recorded as a reduction in the cost of the asset and as receivable from the City of Houston in the Statement of Net Assets. Houston shall hold legal title to the Greens Road Project, however, Houston and the Authority shall each have an undivided equitable interest in, and use and benefit of capacity in the Greens Road water line, in accordance with their pro rata shares of capacity. The estimated capacity of the water line is 76.8 MGD, of which the Authority requires capacity of 44 MGD at the point of delivery in order to have adequate supply of treated surface water for distribution to the Authority's customers to comply with the Harris-Galveston Coastal Subsidence District's 1999 Regulatory Plan, as amended. Houston shall maintain and operate the Greens Road water line. The Authority will be billed for operation and maintenance costs based on their pro rata share of capacity and based on the budget approved by Houston and the Authority.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 13 – Interlocal Agreements (continued)

Louetta Regional Water Plant. On February 16, 2005, the Authority entered into an interlocal agreement with Charterwood Municipal Utility District (Charterwood) and V&W Partners, Ltd. (V&W), for the term of forty years. The purpose of this agreement is to enable the Authority to construct a regional water plant in the area of Charterwood to be known as the Louetta Regional Water Plant (the “Louetta Plant”), enable Charterwood to obtain a supply of water for domestic use to supplement the water supply of Charterwood and to satisfy the needs of V&W for water service from Charterwood for 98 acres for commercial and residential development, which has been annexed into Charterwood. Under the terms of the agreement, the Authority will purchase a 30 foot wide water line easement from V&W to be used for the placement of two large diameter water lines from the plant site. Upon execution of the agreement, the Authority drilled a test hole for a well on the plant site to determine the feasibility and viability of the proposed wells. The drilling of the test hole was completed in the 2005 fiscal year at the cost of \$260,210, which includes construction costs and engineering. Under the terms of the agreement, the Authority proceeded with the construction of the production wells. Upon determination that there is at least one feasible production well, the Authority proceeded with the design and construction of a water line from the plant site to Charterwood’s Water Plant No. 2. The water line is used by the Authority to convey water from the Authority’s production wells to Charterwood’s Water Plant No. 2 in order for Charterwood to provide a supply of water to its customers. Upon completion of the two water lines, the Authority will own, operate and maintain the lines. Charterwood shall proceed with the construction of additional facilities, including pumps, chlorination equipment, storage tanks and other related equipment that are necessary to treat and distribute the water delivered to Charterwood’s Water Plant No. 2 by the Authority. The Authority shall pay Charterwood its pro rata share of the capital costs of the additional facilities. In the 2005 fiscal year, the Authority paid \$961,433 for its estimated share of the cost of the additional facilities.

The facilities were completed in the current fiscal year, a final accounting of construction costs has been made and is in review and the Authority anticipates that they will receive a small refund from Charterwood. In addition, the Authority shall pay Charterwood its pro rata share of the direct costs to repair and maintain the additional facilities. The Authority agrees to deliver water to Charterwood’s Water Plant No. 2, at the point of delivery, in an amount mutually agreed upon by Charterwood and the Authority. Charterwood agrees to purchase water from the Authority to provide a supply of water to its customers. All water delivered by the Authority to and used by Charterwood will be billed to Charterwood and, in turn, water delivered to the Authority by Charterwood will be billed to the Authority. In addition, Charterwood will be able to receive a non-depreciated asset credit for Charterwood’s existing water supply facilities based on the date each facility was constructed, not to exceed \$0.80 per 1,000 gallons of water purchased from the Authority.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 14 – Buy / Sell Agreements

In fiscal years 2005 and 2006 the Authority entered into Buy/Sell agreements for implementation of the Groundwater Transfer Program (GTP) with eighteen utility districts for the purpose of encouraging the maximum utilization of existing water production facilities to provide water to districts that are currently in need of water from districts with a surplus of water. The first priority of the GTP is to supply water to districts with water quality issues such as arsenic, secondly to districts needing additional water for growth and finally to districts needing additional water for peaking purposes. The primary purpose of the GTP is to limit construction of new water wells and related water production facilities that will have limited use after the conversion to surface water in 2010. During a delivery period, a seller shall sell, and the Authority may purchase a volume of water equal to an amount determined by the Authority to be required from a seller to meet demand and create a minimum flow within the Authority's system. The Authority shall sell, and a buyer shall purchase, a volume of water equal to at least the minimum water demand allocation, if any, and not to exceed the maximum water demand allocation by up to ten percent. A buyer shall pay the Authority for water it receives from the Authority for the purchase price of \$1.70 per 1,000 gallons less applicable depreciation credit times the volume of water delivered by the Authority to the buyer. The depreciation credit shall be limited to a maximum of \$0.80 per 1,000 gallons of water purchased. The Authority shall pay the seller the sale price of \$0.91 per 1,000 gallons plus an amount equal to the pumpage fee times the volume of water delivered to the Authority by a seller. The GTP program was implemented in January 2006. During the current year, the Authority recorded \$1,026,988 in revenue and \$908,565 in expenditures for water exchanged for this program.

Note 15 – Water Well Agreement

On March 28, 2006, the Authority entered into a Water Well Agreement (the "Agreement") with V&W Partners, Ltd. (V&W), for itself and on behalf of the to be created Harris County Municipal Utility District No. 468 (MUD). Under the terms of the agreement, the Authority agreed to acquire a water well from V&W for a price of \$567,306. The Authority also purchased easements from V&W which will were used for the placement of two water lines which were purchased by the Authority. The Authority is delivering water, in the amount stated in the agreement, from the water well to the MUD water plant in order to serve customers of the MUD. In addition to the amounts specified in the agreement, the MUD shall be entitled to obtain up to 100,000 GPD to provide water supply service to the Hewlett Packard Data Center (HP Data Center). The MUD has interconnect agreements with Charterwood Municipal Utility District and Harris County Municipal Utility District No. 286 and will be required to provide water to these districts in emergency situations. The Authority can also utilize the water well to supplement its water supply facilities located north of Louetta Road and may utilize the water to serve customers of the Authority.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 15 – Water Well Agreement (continued)

Any amount pumped by the Authority and delivered to the MUD shall be treated by the MUD and delivered to the Authority's point of measurement is subject to treatment charges as described in the agreement. The requirements for delivery and treatment of water shall apply until such time as the Authority delivers surface water to the MUD in accordance with the Authority's GRP. Upon delivery of surface water to the MUD, any water pumped from the water well will be sent to the Authority's water plant north of Louetta Road and the Authority will not be authorized to transmit water directly to the MUD water plant. The MUD agrees to treat water delivered from the Authority's water well to the MUD water plant and the Authority agrees to pay the MUD for the treatment of the water based upon the MUDs then current cost to treat water. The initial charge for the treatment of water will be \$0.84 per 1,000 gallons of water delivered to the Authority's point of measurement and shall be adjusted on an annual basis beginning October 1, 2007. The MUD will bill the Authority on a monthly basis for the treated water delivered through the Authority point of measurement. In turn, the Authority will bill the MUD on a monthly basis for the water delivered to the MUD in the amount of \$1.40 per 1,000 gallons of water, which will be increased from time to time as stipulated in the agreement. The MUD will not be required to pay a pumpage fee for such water. At such time the MUD takes surface water from the Authority, the MUD will only be required to pay the amount established by the Authority for the purchase of surface water. Until such time as the HP Data Center takes water from the MUD, the MUD will be required to pay a reservation fee of \$0.40 per 1,000 gallons for the 100,000 GPD reserved for the HP Data Center. If the HP Data Center obtains water from the MUD then the reserved amount and the corresponding reservation charge will be reduced according to the amount of water obtained. The term of this agreement is forty years with options to renew for successive five year periods, unless terminated by mutual agreement of the parties. As of December 31, 2007, the Authority had paid \$1,211,944 to V&W partners for the well and line improvements, water line easement and water well acquisition in accordance with the Agreement.

Note 16- Subsequent Event

As referred to in Note 5 the Authority has issued approximately \$218,560,000 of Senior Bonds in two separate series. In connection with the issuance of the Senior Bonds, the master resolution authorizing the issuance of the Senior Bonds (the "Master Resolution") required the Authority to provide for a debt service reserve fund (the "Reserve Fund").

The purpose of the Reserve Fund is to provide for ready access to funds on short notice to pay the Senior Bonds in the event that the Authority is ever unable to make debt service payments in a timely manner. Typically, a debt service reserve fund must contain cash and authorized investments in a required minimum amount (the "Reserve Fund Requirement") equal to a percentage of the of the average annual or maximum annual debt service payments on the related bonds. In the case of the Senior Bonds, the current Reserve Fund Requirement is \$15,666,118, which is equal to the maximum annual debt service payment on the Senior Bonds. (\$9,079,000 of this amount is in respect of the Series 2003 Senior Bonds, and \$6,587,118 of this amount is in respect of the Series 2005 Senior Bonds.)

The Reserve Fund may be funded from Senior Bond proceeds at the time of issuance of each series of Senior Bonds or from other lawfully available funds. In the alternative, the Reserve Fund Requirement may be satisfied with either: (i) a surety bond or insurance policy, if the insurer strength rating of the issuer of the surety bond or insurance policy is rated "AAA" or the equivalent; or (ii) an unconditional irrevocable letter of credit issued by a bank rated "AA" or the equivalent.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 16- Subsequent Event (continued)

The Authority elected to satisfy the Reserve Fund Requirement for the Senior Bonds through the purchase of surety bonds. Financial Guaranty Insurance Company (FGIC) provided the surety bond in connection with the Series 2003 Senior Bonds, and MBIA, Inc. (MBIA) provided the surety bond in connection with the Series 2005 Senior Bonds. At the times of the issuance of the Senior Bonds, both FGIC and MBIA held insurer strength ratings of “AAA,” as rated by two national recognized statistical rating organizations, Standard & Poor’s Rating Services (S&P) and Moody’s Investors Service (Moody’s).

Subsequent to year end, FGIC’s “AAA” insurer strength rating was downgraded several times by both S&P and Moody’s. As of April 15, 2008, FGIC’s insurer strength was rated “BB” by S&P and “Baa3” by Moody’s. As of April 15, 2008, S&P and Moody’s continue to rate the insurer strength of MBIA “AAA”.

The Master Resolution provides that, in the event the insurer strength rating of the provider of a surety bond satisfying the Reserve Fund Requirements falls below “AAA” (but not below “A”), the Authority must take one of the following steps:

- i. deposit into the Reserve Fund cash sufficient to cause money in the Reserve Fund to accumulate to the Reserve Fund Requirement, such amount to be paid over the ensuing five years in equal installments at least semi-annually, or
- ii. replace the surety bond with another surety bond, insurance policy or letter of credit issued by an adequately rated provider within six months of such downgrade.

The Master Resolution further provides that in the event the insurer strength rating of the provider of a surety bond satisfying the Reserve Fund Requirement falls below “A”, the Authority must take one of the following steps:

- i. deposit into the Reserve Fund cash sufficient to cause the money in the Reserve Fund to accumulate to the Reserve Fund Requirement, such amount to be paid over the ensuing year in equal installments on at least a monthly basis, or
- ii. replace such instrument with a surety bond, insurance policy or letter of credit issued by an adequately rated provider within six months of such occurrence.

Series 2003 Senior Bonds

As a result of the FGIC downgrades, the FGIC surety policy currently held for the Reserve Fund does not satisfy the requirements of the Master Resolution. The Authority’s Financial Advisors and Bond Counsel are in the process of evaluating appropriate options to either (i) satisfy that portion of the Reserve Fund Requirement applicable to the Series 2003 Senior Bonds with another surety bond, insurance policy, or letter of credit, or (ii) fund that portion of the Reserve Fund Requirement applicable to the Series 2003 Senior Bonds with cash (to be provided from one of several financing options under review).

If either (A) it is determined that it is impractical or impossible to satisfy the Reserve Fund Requirement with another surety bond, insurance policy, or letter of credit, or (B) such surety bond, insurance policy, or letter of credit cannot be obtained within six months of the initial insurer strength rating downgrades described above, the Authority must fund the Reserve Fund with cash. This obligation to fund the Reserve Fund with cash will begin upon the earlier to occur of either (A) or (B) above. With respect to the Series 2003 Senior Bonds insured by FGIC, such cash deposits to the Reserve Fund must be paid in equal monthly installments in an amount sufficient to fully fund that portion of the Reserve Fund applicable to the Series 2003 Senior Bonds over the ensuing twelve months.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Notes to Financial Statements

December 31, 2007

Note 16- Subsequent Event (continued)

Series 2005 Senior Bonds

As noted above, as of April 15, 2008, the insurer strength rating of MBIA, the provider of the surety bond for that portion of the Reserve Fund Requirement applicable to the Series 2005 Senior Bonds, is “AAA” by both S&P and Moody’s. Fitch Ratings, Inc. (Fitch) has recently downgraded MBIA’s insurer strength rating from “AAA” to “AA”. However, the Master Resolution does not establish Fitch as a “Rating Agency” with respect to the Series 2005 Senior Bonds. Accordingly, a rating action by Fitch does not affect the Authority or the Reserve Fund Requirements at this time. Nevertheless, both S&P and Moody’s, while currently maintaining the “AAA” insurer strength rating of MBIA, assign MBIA’s insurer strength rating a “Negative Outlook.” If either S&P or Moody’s downgrade the insurer strength rating of MBIA in the future, the Authority will need to take additional actions to replace the surety bond for that portion of the Reserve Fund Requirement applicable to the Series 2005 Senior Bonds.

Supplementary Information

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Schedule of Expenses

Last Five Fiscal Years

	2007	2006	2005	2004	2003
Personnel					
Employee salaries	\$ 930,979	\$ 900,140	\$ 736,679	\$ 645,026	\$ 432,969
Employee retirement	85,975	88,884	75,649	69,662	30,589
Group insurance	54,352	51,900	50,802	46,841	42,968
Medicare/ Social security	62,312	59,840	51,028	44,162	29,694
Workers' compensation insurance		4,033	5,462		948
Unemployment compensation	360	2,160	189	1,449	378
	<u>1,133,978</u>	<u>1,106,957</u>	<u>919,809</u>	<u>807,140</u>	<u>537,546</u>
Professional fees					
Legal	120,866	132,978	221,475	202,567	675,006
Engineering	1,214,640	1,256,984	1,140,686	1,410,000	4,163,023
Financial services	6,278	11,205	8,809	16,278	54,221
Legislative consultant	130,000	130,000	130,000	108,000	300,000
Redistricting/mapping		4,400		1,000	8,900
Audit	22,500	21,000	17,500	9,500	8,725
	<u>1,494,284</u>	<u>1,556,567</u>	<u>1,518,470</u>	<u>1,747,345</u>	<u>5,209,875</u>
Purchased Services					
Bulk water purchases	52,101	57,569	50,784	22,793	9,154
Water purchase - GTP	908,565	668,056			
	<u>960,666</u>	<u>725,625</u>	<u>50,784</u>	<u>22,793</u>	<u>9,154</u>
Contracted services					
Operations and maintenance	523,574	206,747			
Temporary services	11,139	6,388	8,933	10,425	12,906
	<u>534,713</u>	<u>213,135</u>	<u>8,933</u>	<u>10,425</u>	<u>12,906</u>
Occupancy and office					
Office lease	87,306	87,628	85,547	91,135	87,801
Safe deposit box	63	60	60	60	60
Printing and office	101,477	63,721	110,138	92,742	51,883
Postage and delivery	27,988	25,712	31,793	47,364	27,885
Telephone	14,969	17,454	15,205	12,975	9,080
Utilities	107,206	64,883	3,107	945	840
Equipment leases	13,664	13,241	7,476	11,019	9,665
Meeting sites	3,065	2,826	2,562	956	200
Internet service	15,667		3,468	3,458	3,007
Communication services	67,566	63,017	62,185	56,359	50,998
Web page	100	1,050			1,455
	<u>439,071</u>	<u>339,592</u>	<u>321,541</u>	<u>317,013</u>	<u>242,874</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Schedule of Expenses

Last Five Fiscal Years

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Other					
Director fees	\$ 25,050	\$ 24,900	\$ 26,550	\$ 32,400	\$ 28,500
Election expense		4,900			
Technology transfer projects	43,488	47,438	42,363	54,472	117,794
Insurance	19,659	10,717	12,678	11,775	4,924
Travel and per diem	40,010	38,305	31,241	27,291	19,343
Legal notices				2,627	5,774
Membership/Subscription fees	5,932	5,219	5,423	5,922	5,028
Computer services	10,308	11,058	11,398	13,561	14,504
Computer software and equipment	14,743	27,155	9,701	30,306	
Maintenance and repairs	6,472	5,379	5,445	15,513	15,772
Book and covers					8,036
Office furniture		1,331	10,610	17,547	
Public education			23,279	10,200	
Water conservation	24,004	63,087	50,941	52,757	
Mileage reimbursement	6,439	5,962	4,220	5,044	3,747
Permit fees	12,832	7,742	7,559	200	1,400
Seminars/training	10,055	8,895	5,435	6,351	4,500
Security	754	676	3,281	517	416
Miscellaneous	50,743	153	478	499	1,019
	<u>270,489</u>	<u>262,917</u>	<u>250,602</u>	<u>286,982</u>	<u>230,757</u>
Expenses Before Depreciation and Amortization	<u>4,833,201</u>	<u>4,204,793</u>	<u>3,070,139</u>	<u>3,191,698</u>	<u>6,243,112</u>
Depreciation and Amortization	<u>3,669,081</u>	<u>2,937,335</u>	<u>1,481,005</u>	<u>1,424,695</u>	<u>685,531</u>
Total Expenses	<u><u>\$ 8,502,282</u></u>	<u><u>\$ 7,142,128</u></u>	<u><u>\$ 4,551,144</u></u>	<u><u>\$ 4,616,393</u></u>	<u><u>\$ 6,928,643</u></u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

Schedule of Principal Water Users

December 31, 2007

Name	Pumpage (gallons)	Pumpage Fees Paid	Share (%)
Tomball, City of	682,395,000	\$ 599,558	2.8199%
Harris Co. FWSD 61	677,478,000	598,674	2.7996%
Harris Co. MUD 358	556,762,000	488,498	2.3008%
NW Harris Co. MUD 5	528,178,000	465,889	2.1826%
Bridgestone MUD	527,694,291	466,183	2.1807%
Harris Co. MUD 383	460,370,000	404,020	1.9024%
Harris Co. WCID 109	460,136,000	405,837	1.9015%
Timber Lane UD	443,443,000	389,035	1.8325%
Harris Co. MUD 365	426,203,000	374,522	1.7612%
AquaSource, Inc.	421,692,494	370,164	1.7426%
Subtotal	5,184,351,785	4,562,380	21.4238%
All other retail utilities	18,153,075,315	13,691,219	75.0156%
All private well owners	861,630,144	760,195	3.5606%
Total	24,199,057,244	\$ 19,013,794	100.0000%

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
Miscellaneous Information
December 31, 2007

Rates and Charges

<u>Effective Date</u>	<u>Pumpage Fee (Rate Per 1,000 Gallons of Water Pumped)</u>
January 1, 2000	\$ 0.12
April 1, 2000	0.25
October 1, 2003	0.34
April 1, 2005	0.59
October 1, 2006	0.84
October 1, 2007	0.99

Billing and Collection Experience

<u>Calendar Year Ending</u>	<u>Pumpage Reported to Subsidence District (gallons)</u>	<u>Pumpage Reported to Authority (gallons)</u>	<u>Percentage</u>
2002	23,385,003,226	23,304,243,101	99.65%
2003	23,922,957,131	23,919,899,118	99.99%
2004	23,055,346,850	23,002,955,882	99.77%
2005	28,356,373,609	28,351,195,157	99.98%
2006	26,834,935,391	26,822,777,163	99.95%
2007	24,218,161,044	24,199,057,244	99.92%