

Harris County, Texas Annual Financial Report



For The Fiscal Year Ended
February 28, 2006 (Restated)

County Judge Ed Emmett and
Members of Commissioners Court of
Harris County, Texas:

The accompanying Audit Reports for the year ended February 28, 2006, for Harris County, Texas have been revised to incorporate the effects of the restatement of the 2006 financial statements and of comments received from the U.S. Department of Health and Human Services. A summary of the revisions is as follows:

- Independent Auditors' Report for the year ended February 28, 2006, was revised to refer to the footnote 21 in the financial statements regarding the restatement of the 2006 financial statements and to footnote 5 to the schedule of expenditures of federal and state awards regarding the inclusion of an additional program as a major program and the disclosure of reportable conditions and material weaknesses. This report was therefore dual dated.
- Footnote 21 has been revised to reflect the effects of the restatement of the financial statements as of and for the year ended February 28, 2006.
- Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal and State Award Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the associated Schedule of Findings and Questioned Costs for the year ended February 28, 2006, were revised to include an additional Health and Human Services program, Title IV-E Legal and Child Welfare Services, CFDA No. 93.658, that met the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* requirements of being a major program which was not identified as such in the original report dated July 27, 2006. This report was therefore dual dated.
- Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based Upon the Audit Performed in Accordance with *Government Auditing Standards* is required by *Government Auditing Standards*. As the Independent Auditors' Report was dual dated (as noted in the first comment above), so too was the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based Upon the Audit Performed in Accordance with *Government Auditing Standards*.
- Notes to the Schedule of Expenditures of Federal and State Awards was revised to add Note 5, discussing the identification of CFDA No. 93.658 as a major program and to reflect the addition of reportable conditions and material weaknesses related to internal control over financial reporting.

- The Schedule of Finding and Questioned Costs was revised to include CFDA No. 93.658 as a major program and to include reportable conditions and material weaknesses in internal control over financial reporting identified during the fiscal year 2006 audit. In addition, a reference to such reportable conditions (06-03, 06-04, 06-05, 06-06 and 06-07) and material weaknesses (06-06 and 06-07) was added in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based Upon the Audit Performed in Accordance with *Government Auditing Standards*.

Deloitte & Touche LLP

September 25, 2007

HARRIS COUNTY, TEXAS

Annual Financial Report For The Fiscal Year Ended February 28, 2006 (Restated)

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**HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006 (Restated)
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INDEPENDENT AUDITORS' REPORT (AS REVISED)

County Judge Ed Emmett
and Members of Commissioners Court
of Harris County, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Harris County, Texas (the "County"), as of and for the year ended February 28, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We also did not audit the financial statements of the Harris County Clerk Registry Fund and the Harris County District Clerk Registry Fund agency funds, which statements reflect 41% percent of the assets of the agency funds at February 28, 2006. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the agency funds, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. The financial statements of the Harris County Sports and Convention Corporation, a blended component unit, the Harris County Clerk Registry Fund and the Harris County District Clerk Registry Fund were audited in accordance with generally accepted auditing standards, but were not audited in accordance *Government Auditing Standards*. The financial statements of Harris County Housing Finance Corporation, and the Harris County Industrial Development Corporation, discretely presented component units, were audited in accordance with generally accepted auditing standards, but were not audited in accordance with *Government Auditing Standards*. The financial statements of Harris County Hospital District and the Mental Health and Mental Retardation Authority of Harris County, discretely presented component units, were audited in accordance with generally accepted auditing standards and *Government Auditing Standards*. 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 County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Harris County, Texas, as of February 28, 2006, and the respective changes in financial position (and respective cash flows, where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21 to the financial statements, the accompanying 2006 financial statements have been restated. As discussed in Note 5 to the Schedule of Expenditures of Federal and State Awards, the Schedule of Findings and Questioned Costs was revised for the addition of a major program and the inclusion of reportable conditions and material weaknesses related to the financial statements.

The Management's Discussion and Analysis, Schedule of Available Resources – Budget and Actual Budgetary Basis – General Fund, and the Schedule of Expenditures and Other Uses – Budget and Actual Budgetary Basis – General Fund, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the County's management. We and the other auditors 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.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the County's basic financial statements. The Combining and Individual Fund Information and other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal and State Awards is also presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Uniform Grant Management Standards*. This supplementary information is the responsibility of the County's management. The Combining and Individual Fund Information and Other Supplementary Information and the Schedule of Expenditures of Federal and State Awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2006 (September 25, 2007 as to the effects of the restatement discussed in Note 21 to the Financial Statements and Note 5 to the Schedule of Expenditures of Federal and State Awards), on our consideration of Harris County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

July 27, 2006 (September 25, 2007 as to the effects of the restatement discussed in Note 21 to the Financial Statements and Note 5 to the Schedule of Expenditures of Federal and State Awards)

**Harris County, Texas
Management's Discussion and Analysis (Unaudited)**

This section of the Harris County, Texas (the "County") Annual Financial Report presents a narrative overview and analysis of the financial activities of the primary government for the fiscal year ended February 28, 2006. Please read it in conjunction with the County's basic financial statements following this section.

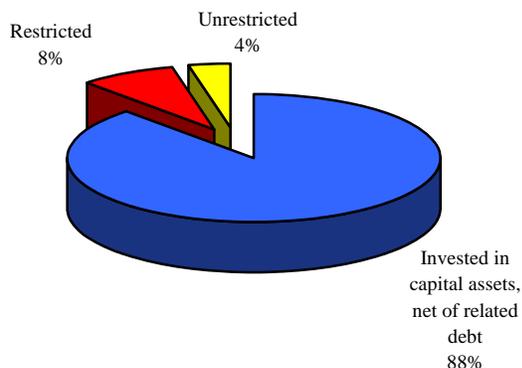
FINANCIAL HIGHLIGHTS

Government-wide

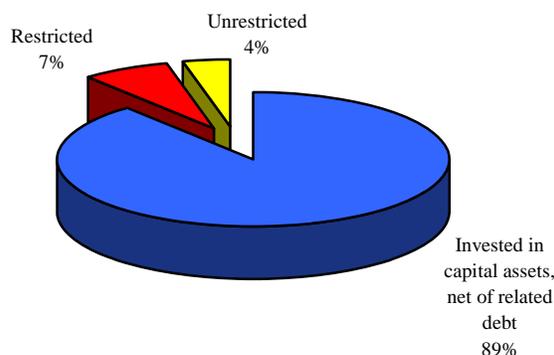
The total government-wide assets of the County exceeded the liabilities at February 28, 2006 by \$10,544,835,927. This is comparable to the previous year when assets exceeded liabilities by \$10,047,341,060 as restated. The restatement of prior year net assets is the result of an overstatement of bond premium which was net of amortization and additional capital asset values.

- Total net assets of the primary government are comprised of the following:
 - (1) Capital assets, net of related debt, of \$9,278,295,514 or 88% of total net assets, include land, improvements, construction in progress, and other capital assets, net of accumulated depreciation, and is reduced by outstanding debt, net of unspent proceeds, related to the purchase or construction in capital assets. This reflects an increase of \$336,209,235 over the prior year, which is due primarily to the donation of Reliant Park assets by Harris County Sports & Convention Corporation.
 - (2) Net assets of \$889,025,110 are restricted by constraints imposed from outside the County such as debt obligations, laws, or regulations. The increase of restricted assets from 7% for the prior year to 8% is due to an increase in Toll Road restrictions required by debt covenants and an overall increase in Toll Revenues.
 - (3) Unrestricted net assets of \$377,515,303 represent the portion available to meet ongoing obligations to citizens and creditors. Unrestricted net assets are 4% of total net assets and are comparable to the prior year.

NET ASSETS BY CATEGORY
February 28, 2006



NET ASSETS BY CATEGORY
February 28, 2005



Governmental Fund Financial Statements

- As of February 28, 2006, County governmental funds reported combined fund balances of \$874,408,516. This reflects a decrease of \$21,874,307 from the previous fiscal year, primarily due to decreases in reserves for encumbrances and grant programs. Combined unreserved fund balances of \$414,475,674 for

***Harris County, Texas
Management's Discussion and Analysis (Unaudited)***

fiscal year 2006 shows a decrease of \$46,832,636 from the prior year as restated. The decrease is primarily attributable to an increase in reserves for debt service, prepaids and inventory.

- At the end of the fiscal year, the unreserved fund balance of the County's General Fund was \$175,580,869, or 16% of the General Fund's total expenditures and 16% of revenues. In addition, the General Fund had a reserved fund balance of \$146,215,455, which increased \$33,924,390 from the prior year. This increase is primarily due to an increase in reserves for debt service.
- The nonmajor governmental funds had total combined fund balances of \$552,612,192 at February 28, 2006. Of this amount, \$238,894,805 is unreserved with \$118,212,837 designated for capital projects. The remaining \$313,717,387 is reserved for encumbrances, debt service, inventory, prepaids, advances, and grant programs.

Long-Term Debt

- The County issues debt to finance an ongoing capital improvement program. During fiscal year 2005-2006, the County issued \$104 million in bonds, which defeased and refunded bonded debt issued in 1999, 2001 and 2003. Note 11 to the financial statements provides details of long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements, which are comprised of the following three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements. The Single Audit is included in the financial report in the compliance section.

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all County assets and liabilities, with the difference between the two representing net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information that indicates how net assets changed during the 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include administration of justice, parks, county administration, health and human services, flood control, tax administration, and roads and bridges. The business-type activities of the County include toll road, subscriber access, parking facilities, and sheriff's commissary fund activities.

Component units are included in the basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The County's component units have been reported as blended with the County as the primary government or as discrete (separate) component unit, as appropriate. The following component units have been included in this year's report: Harris County Flood Control District, Harris County Juvenile Board, Harris County Sports and Convention Corporation, Harris County Hospital District, Harris County

***Harris County, Texas
Management's Discussion and Analysis (Unaudited)***

Housing Finance Corporation, Mental Health and Mental Retardation Authority of Harris County, Harris County Industrial Development Corporation, Children's Assessment Center Foundation, Inc., Harris County Housing Authority, Harris County Health Facilities Development Corporation, and Harris County Cultural Education Facilities Finance Corporation. For more detailed information on these component units, refer to Note 1A of the basic financial statements.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 48 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the major governmental funds. Data from other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds are maintained two ways. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for toll road operations, computer access to certain District Clerk and County Clerk records, acquisition, operation and maintenance of parking facilities, and operation of a commissary for jail inmates. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its maintenance of County vehicles, sale of surplus items, operation of County radios, operation of the printing shop provided by inmates, workers compensation, health insurance and other risk management activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The toll road fund is considered to be a major fund of the County. The subscriber access, parking facilities, and sheriff's commissary funds are combined as nonmajor enterprise funds for the basic financial statements, but are presented individually in the fund financial statements that follow the required supplementary information. The County's internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County's fiduciary funds are comprised of the Insurance Trust Fund and 12 agency funds. The Insurance Trust Fund is used to account for County employees' and retirees' group insurance benefits. Agency funds are used to report resources held by the County in a purely custodial capacity (assets equal liabilities) and therefore do not involve measurement of results of operations.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 38 of this report.

Required Supplementary Information for the County's General Fund budgetary schedule is presented herein. The County adopts an annual budget for this fund. A budgetary comparison schedule, which includes the original and final amended budget and actual figures, has been provided to demonstrate compliance with this budget. Required supplementary information can be found beginning on page 91 of this report.

The combining and individual fund statements and schedules referred to earlier provide information for non-major governmental, proprietary, and fiduciary funds, as well as, non-major component units. They are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$10,544,835,927 for fiscal year 2006 and \$10,047,341,060 as restated for fiscal year 2005. Note 21 to the financial statements provides details of the restatement. Revenues exceeded expenses during the current year, increasing net assets by \$497,494,867.

Condensed Statement of Net Assets

February 28, 2006

(Amounts in thousands)

Primary Government

	Governmental Activities (as restated, Note 21)	Business-type Activities	Total
Current and other assets	\$ 1,209,647	\$ 874,140	\$ 2,083,787
Capital assets	11,712,087	1,558,834	13,270,921
Total assets	<u>12,921,734</u>	<u>2,432,974</u>	<u>15,354,708</u>
Current and other liabilities	271,851	60,764	332,615
Long-term liabilities	2,410,227	2,067,030	4,477,257
Total liabilities	<u>2,682,078</u>	<u>2,127,794</u>	<u>4,809,872</u>
Net assets:			
Invested in capital assets, net of related debt	9,679,340	(401,045)	9,278,295
Restricted net assets	194,060	694,965	889,025
Unrestricted net assets	366,256	11,260	377,516
Total net assets	<u>\$ 10,239,656</u>	<u>\$ 305,180</u>	<u>\$ 10,544,836</u>

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

Condensed Statement of Net Assets
February 28, 2005
(Amounts in thousands)
Primary Government

	Governmental Activities (as restated, Note 21)	Business-type Activities	Total
	Current and other assets	\$ 1,221,945	\$ 665,442
Capital assets	11,167,408	1,513,974	12,681,382
Total assets	<u>12,389,353</u>	<u>2,179,416</u>	<u>14,568,769</u>
Current and other liabilities	238,140	65,813	303,953
Long-term liabilities	2,285,491	1,931,984	4,217,475
Total liabilities	<u>2,523,631</u>	<u>1,997,797</u>	<u>4,521,428</u>
Net assets:			
Invested in capital assets, net of related debt	9,299,331	(357,244)	8,942,087
Restricted net assets	193,777	528,842	722,619
Unrestricted net assets	372,614	10,021	382,635
Total net assets	<u>\$ 9,865,722</u>	<u>\$ 181,619</u>	<u>\$ 10,047,341</u>

The largest portion of the County's current fiscal year net assets (88 percent) reflects its investments in capital assets (e.g.; land, improvements, buildings, equipment, and infrastructure) less any related outstanding debt used to acquire those assets. The primary use of these capital assets is to provide services to citizens; therefore, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The increase of \$336,209,235 in the County's net assets invested in capital assets, net of related debt, is comprised of \$589,539,313 increase in capital assets with an offsetting increase of \$248,605,591 in debt related to capital assets and a decrease of unspent debt proceeds of \$4,724,487.

Another portion of the County's current fiscal year net assets (4 percent) represents unrestricted net assets, which may be used to meet the County's ongoing obligations to citizens and creditors. The remaining balance of net assets (8 percent) represents resources that are subject to external restrictions on how they may be used. A large portion of the restricted net assets, \$524,387,822 is for use for the ongoing obligations of the Toll Road Authority. Other restrictions include \$270,789,371 for debt service payments, \$90,601,881 for capital projects, temporary donor restricted from grantors of \$1,669,212 and legislative restricted net assets of \$1,576,824.

At the end of the current fiscal year, the County reported positive net assets in all three categories of net assets for its governmental activities and positive net assets in two of the three categories for its business-type activities. Net assets invested in capital assets, net of related debt for business-type activities was negative \$401,044,667 primarily due to the refunding of debt extending the repayment of the debt beyond the useful life of the assets.

The following table indicates changes in net assets for governmental and business-type activities:

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

Condensed Statement of Activities
(In Thousands)
For the Year Ended February 28, 2006
Primary Government

	Governmental Activities (as restated, Note 21)	Business-type Activities	Total
REVENUES			
Program revenues:			
Charges for services	\$ 279,396	\$ 357,106	\$ 636,502
Operating grants and contributions	170,733	-	170,733
Capital grants and contributions	659,449	3,129	662,578
General revenues:			
Taxes-levied for general purposes	839,697	-	839,697
Taxes-levied for debt services	17,173	-	17,173
Hotel occupancy tax	19,271	-	19,271
Investment earnings	30,748	20,168	50,916
Miscellaneous	32,030	1,001	33,031
Total revenues	<u>2,048,497</u>	<u>381,404</u>	<u>2,429,901</u>
EXPENSES			
Administration of justice	621,764	-	621,764
Parks	60,417	-	60,417
County administration	250,098	-	250,098
Health and human services	185,057	-	185,057
Flood control	72,445	-	72,445
Tax administration	30,709	-	30,709
Roads and bridges	347,524	-	347,524
Interest and fiscal charges	108,636	-	108,636
Toll road	-	230,254	230,254
Subscriber access	-	268	268
Parking facilities	-	786	786
Sheriff's commissary	-	6,251	6,251
Total expenses	<u>1,676,650</u>	<u>237,559</u>	<u>1,914,209</u>
Excess before other items and transfers	371,847	143,845	515,692
Gain on sale of capital assets	877	-	877
Transfers	20,284	(20,284)	-
Special item	(19,074)	-	(19,074)
Change in net assets	<u>373,934</u>	<u>123,561</u>	<u>497,495</u>
Net assets - beginning	9,865,722	181,619	10,047,341
Net assets - ending	<u>\$ 10,239,656</u>	<u>\$ 305,180</u>	<u>\$ 10,544,836</u>

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

Condensed Statement of Activities
(In Thousands)
For the Year Ended February 28, 2005
Primary Government

	Governmental Activities (as restated, Note 21)	Business-type Activities	Total
REVENUES			
Program revenues:			
Charges for services	\$ 251,309	\$ 324,322	\$ 575,631
Operating grants and contributions	168,325	11,764	180,089
Capital grants and contributions	161,929	12,522	174,451
General revenues:			
Taxes-levied for general purposes	708,791	-	708,791
Taxes-levied for debt services	145,944	-	145,944
Hotel occupancy tax	16,830	-	16,830
Investment earnings	12,555	6,439	18,994
Miscellaneous	25,181	487	25,668
Total revenues	<u>1,490,864</u>	<u>355,534</u>	<u>1,846,398</u>
EXPENSES			
Administration of justice	613,153	-	613,153
Parks	51,333	-	51,333
County administration	267,178	-	267,178
Health and human services	171,065	-	171,065
Flood control	81,182	-	81,182
Tax administration	30,040	-	30,040
Roads and bridges	332,468	-	332,468
Interest and fiscal charges	81,899	-	81,899
Toll road	-	213,358	213,358
Subscriber access	-	368	368
Parking facilities	-	492	492
Sheriff's commissary	-	4,816	4,816
Total expenses	<u>1,628,318</u>	<u>219,034</u>	<u>1,847,352</u>
Excess before other items and transfers	(137,454)	136,500	(954)
Gain on sale of capital assets	21	-	21
Transfers	23,401	(23,401)	-
Change in net assets	(114,032)	113,099	(933)
Net assets - beginning	9,979,754	68,520	10,048,274
Net assets - ending	<u>\$ 9,865,722</u>	<u>\$ 181,619</u>	<u>\$ 10,047,341</u>

Revenues

For fiscal year ended February 28, 2006, revenues for the primary government totaled \$2,430,777,557. The revenues are categorized by activity type: governmental activities totaled \$2,049,373,209 and business-type activities totaled \$381,404,348.

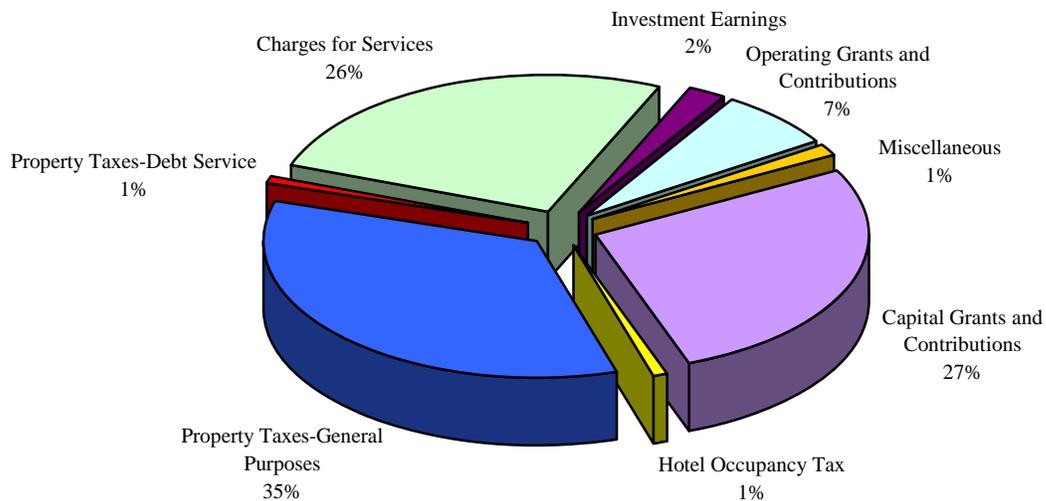
Property and hotel occupancy taxes of \$876,141,635 were the largest revenue source for governmental activities and 37% of total revenues. The tax rate was \$.39986 per \$100 of assessed value for fiscal year 2006 and fiscal year 2005. The assessed value increased in fiscal year 2006 to \$267,327,033,000 from the assessed value in the prior fiscal year of \$231,537,890,000.

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

Program revenues are derived from the program itself and reduce the cost of the function to the County. Total program revenues were \$1,469,812,555 or 60% of total revenues. The largest portion of program revenues is charges for services of \$636,501,477 (26%). Of that, \$279,395,450 is from governmental activities, which represents fees, fines, and charges related to law enforcement and court activities, park operations, general county services, health and social activities, flood control activities, tax assessment and collection, and road and bridge activities. The business-type charges for services were \$357,106,027, which are primarily toll road receipts. The other portions of program revenues are operating grants and contributions of \$170,733,012 (7%) and capital grants and contributions of \$662,578,066 (27%). These represent receipts from various federal, state, and local agencies.

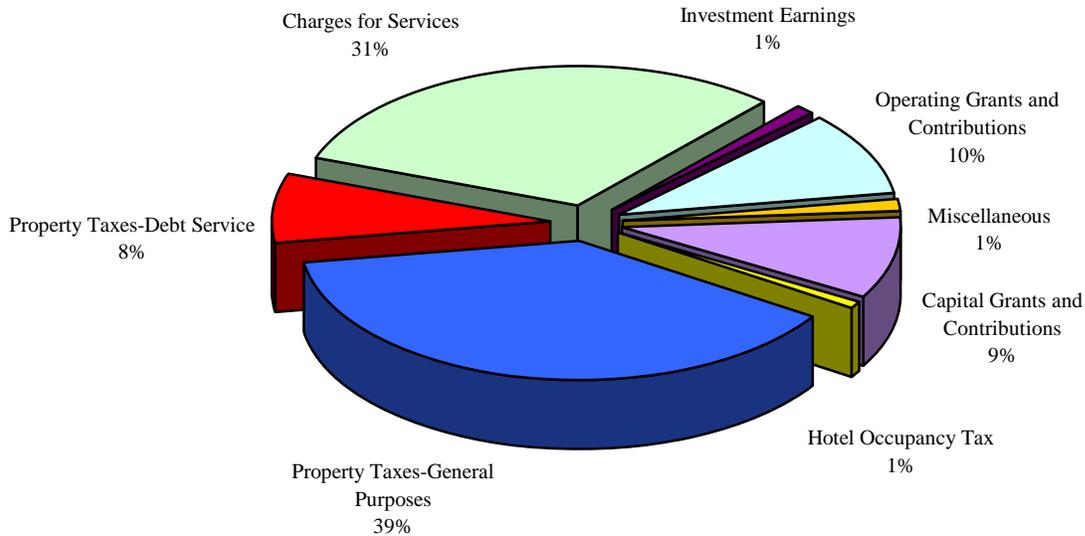
General revenues are revenues that can not be assigned to a specific function. They consist of tax levies (discussed above), earnings on investments of \$50,916,199 (2% of total revenues), and miscellaneous income of \$33,907,168 (1% of total revenues).

REVENUES BY SOURCE
Year ended February 28, 2006



Harris County, Texas
Management's Discussion and Analysis (Unaudited)

REVENUES BY SOURCE
 Year ended February 28, 2005



Expenses

For fiscal year ended February 28, 2006, expenses for the primary government totaled \$1,914,208,942. These expenses are divided by activity type: governmental activities of \$1,676,650,231 and business-type activities of \$237,558,711.

The governmental activities administration of justice is the County's largest function. The main components of this function are the civil and criminal courts and the sheriff's department. Total expenses for this activity were \$621,764,132 or 32% of total expenses, an increase of \$8,611,012 from fiscal year 2005 expenses of \$613,153,120. This increase can be attributed to increases in salaries, fringe benefits, costs of housing and trial of inmates, and an increase in fuel costs for patrol vehicles.

The expenses for the roads and bridges governmental activities function were \$347,524,327 or 18% of total expenses and increased \$15,056,159 from fiscal year 2005 expenses of \$332,468,168. This is primarily due to increases in salaries, fringe benefits, and maintenance projects in this function.

County administration governmental function expenses were \$250,098,031 or 13% of total expenses and decreased \$17,080,229 from prior year expenses of \$267,178,260. The decrease is primarily due to the one-time transfer to establish the insurance trust fund in the prior year.

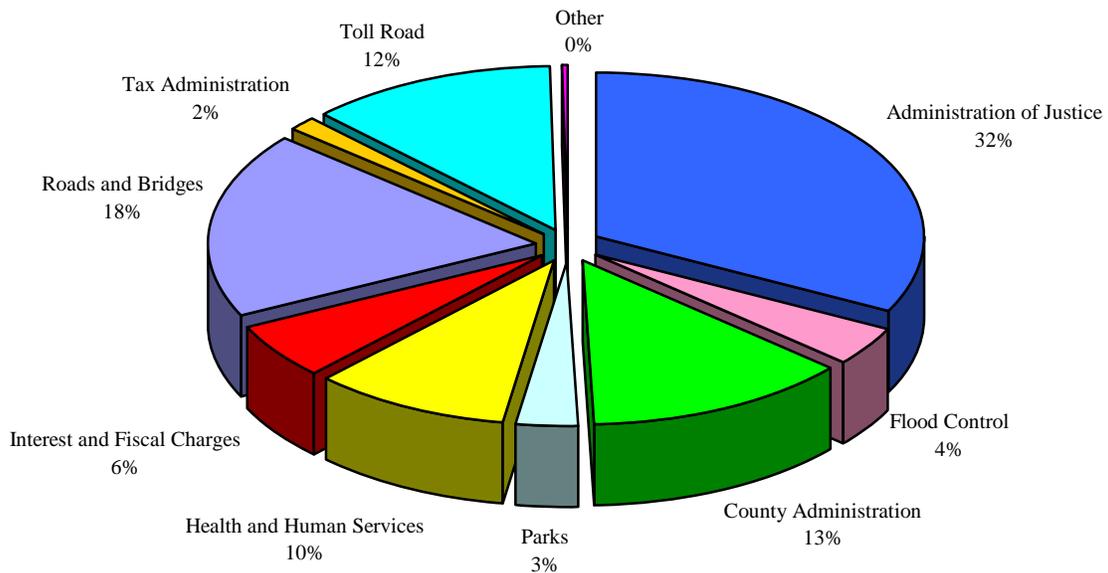
Toll road business-type function expenses were \$230,254,202 or 12% of total expenses and increased \$16,896,578 from fiscal year 2005. This increase is primarily due to an increase in depreciable assets being added in the prior year, which causes more depreciation expense to be recorded in the current year. Another factor in the increase is an increase in materials and supplies due to upgrading of various traffic control equipment. Expenses for other business-type activities were of \$7,304,509 and were less than 1% of total expenses.

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

Governmental activities interest and fiscal charges of \$108,635,880 constituted 6% of total expenses and increased \$26,737,340. This is mostly due to larger interest payments made in the current year for bonds issued in 2004 and 2005.

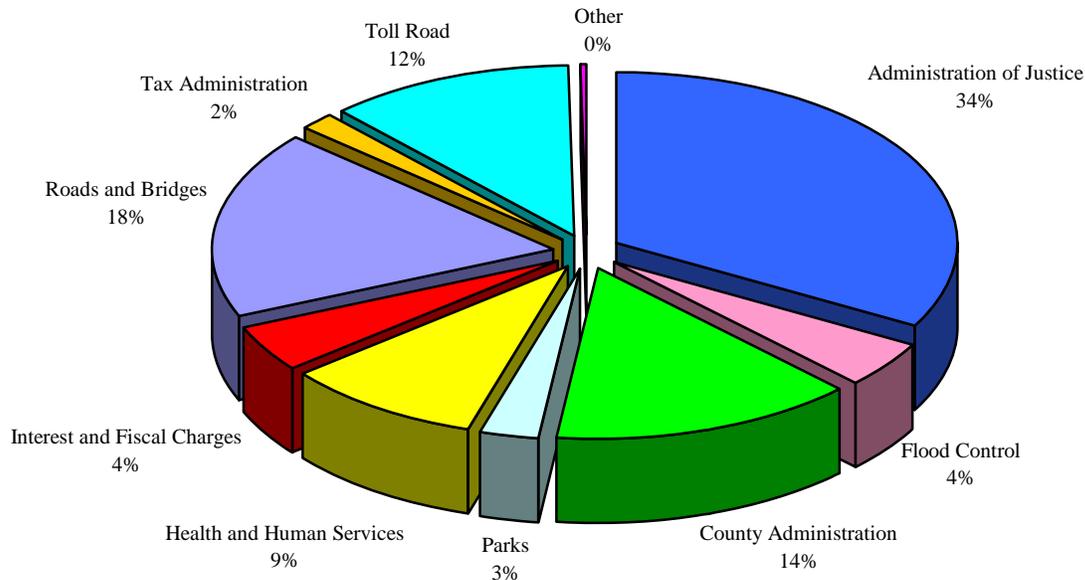
The remaining governmental activities functions are health and human services with expenses of \$185,056,824 or 10%, flood control with expenses of \$72,445,450 or 4%, parks with expenses of \$60,416,485 or 3% and tax administration of \$30,709,102 or 2%.

EXPENSES BY FUNCTION
Year Ended February 28, 2006



Harris County, Texas
Management's Discussion and Analysis (Unaudited)

EXPENSES BY FUNCTION
 Year Ended February 28, 2005



FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund is the County's chief operating fund and major governmental fund. For the year ended February 28, 2006, the General Fund reported a net fund balance increase of \$5,821,326. This change was primarily due to an increase in revenues which exceeded the increase in expenditures in the current year. The increase in revenues is a reflection of increased tax collections and fees for various services. Another attributing factor is the increase in interest rates which increased earnings on investments.

The Toll Road Fund was the County's only major proprietary fund at February 28, 2006. This fund is used to account for the acquisition, operation, and maintenance of County toll roads. As of February 28, 2006, net assets invested in capital assets, net of related debt was a negative \$421,456,777, and restricted net assets were \$694,965,061. Net assets invested in capital assets, net of related debt decreased from a February 28, 2005 balance of negative \$378,110,587. Net assets invested in capital assets net of related debt for both years was negative, primarily due to the refunding of debt which extended the repayment of the debt beyond the useful life of the assets. Restricted net assets increased \$166,122,225 from prior year of \$528,842,836, due to an increase in toll revenues. The restricted net assets are considered restricted due to debt obligations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget reflected in an increase of \$159,224,038 in available resources. This increase is due to an increase in governmental income and issuance of debt. Differences between the original budget and the final amended budget resulted in \$159,503,343 increase in appropriations which is primarily due to debt issuance.

During the year, actual revenues and transfers exceeded budgetary revenue estimates by \$53,604,379. This is primarily due to the issuance of debt and higher collections of taxes, charges for services, and miscellaneous

***Harris County, Texas
Management's Discussion and Analysis (Unaudited)***

income. Actual expenditures were \$242,322,351 less than budgetary estimates. This difference is primarily due to a decrease in expenditures as a result of debt refunding and the carry forward of maintenance funds in the precincts.

Budget variances are not expected to impact future services or liquidity.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The County's capital assets, net of accumulated depreciation for its governmental and business-type activities as of February 28, 2006, was \$13,270,921,359, and increased \$589,539,313 from capital assets reported February 28, 2005 of \$12,681,382,046 (as restated). These capital assets include land, improvements, structures, park improvements and facilities, infrastructure, equipment, vehicles, machinery, other tangible assets, easements and construction in progress.

Major capital asset events during the current fiscal year included the following:

- The County has several ongoing capital improvement projects, including the West Dallas Detention Center, a new Plaza/Jury Assembly Facility with a tunnel connection to the Civil Justice Center, and a Fire Training and Sheriff's Academy.
- The Juvenile Justice Center and the Civil Justice Center were completed during this fiscal year.
- The Flood Control District has several ongoing flood damage reduction and mitigation projects in cooperation with the Federal Emergency Management Agency and the United States Army Corps of Engineers.
- The Harris County Toll Road Authority has several ongoing projects, including the widening of the Sam Houston Toll Road, Westpark Tollway Phase II and the I-10 Corridor.

For further information regarding capital assets, see Note 7 to the financial statements.

	Balance February 28, 2006 (as restated, Note 21)	Balance February 28, 2005 (as restated, Note 21)
<u>Governmental Activities:</u>		
Land	\$ 3,691,139,353	\$ 3,651,069,539
Construction in progress	464,369,121	478,533,445
Land improvements	1,831,945	393,027
Infrastructure	9,115,979,272	9,007,475,010
Park facilities	65,128,632	59,452,060
Flood control projects	433,628,493	396,173,803
Buildings	1,514,340,058	865,265,692
Equipment	223,939,639	199,293,521
	<u>15,510,356,513</u>	<u>14,657,656,097</u>
Less: Accumulated depreciation	(3,798,269,371)	(3,490,247,752)
Total governmental activities	<u>\$ 11,712,087,142</u>	<u>\$ 11,167,408,345</u>

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

	Balance	Balance
	February 28, 2006	February 28, 2005
<u>Business-type Activities:</u>		
Land	\$ 252,855,512	\$ 245,351,749
Construction in progress	166,560,848	288,802,233
Land improvements	694,561	694,561
Infrastructure	1,682,805,435	1,471,748,408
Other tangible assets	3,414,800	514,250
Buildings	39,379,262	38,953,911
Equipment	11,322,752	13,970,629
	<u>2,157,033,170</u>	<u>2,060,035,741</u>
Less: Accumulated depreciation	(598,198,953)	(546,062,040)
Total business-type activities	<u>\$ 1,558,834,217</u>	<u>\$ 1,513,973,701</u>

Long-term Debt. At February 28, 2006, the County had total long-term debt outstanding of \$4,477,779,884. Refer to Note 11 to the financial statements for further information on the County's long-term debt.

	Outstanding at	Outstanding at
	February 28, 2006	February 28, 2005
	(as restated, Note 21)	(as restated, Note 21)
<u>Governmental Activities:</u>		
Bonds payable	\$ 1,978,755,330	\$ 2,048,285,949
Commercial paper payable	346,945,000	151,698,000
Compensatory time payable	25,899,815	22,693,331
Obligations under capital leases	27,133,167	28,377,416
Capital lease - Sports Corporation	1,558,238	1,841,764
Landfill Remediation	3,750,000	3,800,000
Judgments Payable	3,049,850	4,500,300
Note payable	23,135,923	24,294,457
Total governmental activities	<u>\$ 2,410,227,323</u>	<u>\$ 2,285,491,217</u>
<u>Business-type Activities:</u>		
Bonds payable	\$ 2,054,159,113	\$ 1,878,206,023
Commercial paper payable	-	39,960,000
Judgments payable	12,723,000	13,223,000
Compensatory time payable	670,448	594,485
Total business-type activities	<u>\$ 2,067,552,561</u>	<u>\$ 1,931,983,508</u>

The County has a continuing goal to upgrade the County's debt rating. The bond rating services of Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch IBCA, Inc. have assigned the County long term bond ratings of Aa1, AA+, and AA+, respectively.

ECONOMIC FACTORS

The unemployment rate for Harris County for calendar year 2005 was 5.4%. This is a favorable decrease from the prior year rate of 5.9%. The state unemployment rate for calendar year 2005 was 4.8%. The number of people employed with Harris County increased by 437 during the year.

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor's Office, 1001 Preston, Suite 800, Houston, Texas 77002, or visit the County's website at www.co.harris.tx.us.

BASIC FINANCIAL STATEMENTS

HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
February 28, 2006

	Primary Government			Component Units
	Governmental Activities (as restated, Note 21)	Business- Type Activities	Total (as restated, Note 21)	
ASSETS				
Cash and cash equivalents	\$ 272,196,068	\$ 9,404,182	\$ 281,600,250	\$ 95,650,631
Investments	536,734,589	1,377,259	538,111,848	330,857,604
Taxes receivable, net	24,859,154	-	24,859,154	43,055,000
Accounts receivable, net	59,503,626	88,787	59,592,413	56,839,985
Accrued interest receivable	9,789,056	7,487	9,796,543	-
Lease receivable	318,300	-	318,300	-
Due from other governmental units	157,521	-	157,521	-
Other receivables	147,634,528	-	147,634,528	7,449,639
Internal balances	(697,828)	749,218	51,390	-
Inventories, prepaids and other assets	3,876,446	173,471	4,049,917	59,618,957
Restricted:				
Cash and cash equivalents	56,130,854	73,992,074	130,122,928	93,717,204
Investments	65,459,034	660,789,954	726,248,988	-
Receivables, net	-	2,489,813	2,489,813	-
Accrued interest receivable	-	3,649,064	3,649,064	-
Other receivables, net	-	4,009,983	4,009,983	-
Prepaids and other assets	-	8,159,064	8,159,064	-
Internal balances	-	(51,390)	(51,390)	-
Deferred charges, net of amortization	12,137,683	21,800,919	33,938,602	-
Notes receivable	21,547,964	-	21,547,964	-
Intangible asset	-	87,500,000	87,500,000	-
Capital assets:				
Land, improvements, and construction in progress	4,155,508,474	419,416,360	4,574,924,834	29,620,240
Other capital assets, net of depreciation	7,556,578,668	1,139,417,857	8,695,996,525	209,497,760
Total assets	<u>12,921,734,137</u>	<u>2,432,974,102</u>	<u>15,354,708,239</u>	<u>926,307,020</u>
LIABILITIES				
Vouchers payable and other current liabilities	200,392,637	540,264	200,932,901	171,996,889
Due to other governmental units	2,319,369	-	2,319,369	-
Deferred revenue	31,712,780	-	31,712,780	838,121
Payable from restricted assets:				
Vouchers payable and other current liabilities	-	60,223,896	60,223,896	-
Current portion of long-term liabilities	-	67,451,943	67,451,943	-
Non-current portion of long-term liabilities	-	1,999,577,465	1,999,577,465	-
Accrued interest	37,426,432	-	37,426,432	489,000
Long-term liabilities:				
Due within one year	125,925,353	-	125,925,353	9,642,049
Due in more than one year	2,284,301,970	203	2,284,302,173	142,489,209
Total liabilities	<u>2,682,078,541</u>	<u>2,127,793,771</u>	<u>4,809,872,312</u>	<u>325,455,268</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,679,340,181	(401,044,667)	9,278,295,514	64,222,276
Restricted for:				
Debt service	142,249,835	128,539,536	270,789,371	-
Capital projects	48,564,178	42,037,703	90,601,881	33,880,441
Donor temporarily restricted	1,669,212	-	1,669,212	3,349,358
Legislative	1,576,824	-	1,576,824	-
Toll Road	-	524,387,822	524,387,822	-
Unrestricted	366,255,366	11,259,937	377,515,303	499,399,677
Total net assets	<u>\$ 10,239,655,596</u>	<u>\$ 305,180,331</u>	<u>\$ 10,544,835,927</u>	<u>\$ 600,851,752</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF ACTIVITIES
For The Year Ended February 28, 2006

Functions/Programs	Expenses (as restated, Note 21)	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions (as restated, Note 21)	Capital Grants and Contributions (as restated, Note 21)	Primary Government			
					Governmental Activities (as restated, Note 21)	Business-type Activities	Total	
Primary government:								
Governmental activities:								
Administration of Justice	\$ 621,764,132	\$ 117,322,302	\$ 44,702,184	\$ -	\$ (459,739,646)	-	\$ (459,739,646)	
Parks	60,416,485	2,578,871	431,196	3,748,000	(53,658,418)	-	(53,658,418)	
County Administration	250,098,031	53,635,647	41,419,937	3,370,098	(151,672,349)	-	(151,672,349)	
Health and Human Services	185,056,824	7,826,729	83,977,329	-	(93,252,766)	-	(93,252,766)	
Flood Control	72,445,450	1,007,894	49,809	36,049,692	(35,338,055)	-	(35,338,055)	
Tax Administration	30,709,102	66,392,101	-	-	35,682,999	-	35,682,999	
Road and Bridges	347,524,327	30,631,906	152,557	616,280,764	299,540,900	-	299,540,900	
Interest and fiscal charges	108,635,880	-	-	-	(108,635,880)	-	(108,635,880)	
Total governmental activities	<u>1,676,650,231</u>	<u>279,395,450</u>	<u>170,733,012</u>	<u>659,448,554</u>	<u>(567,073,215)</u>	<u>-</u>	<u>(567,073,215)</u>	
Business-type activities:								
Toll Road	230,254,202	349,341,225	-	3,129,512	-	\$ 122,216,535	122,216,535	
Subscriber Access	267,319	394,808	-	-	-	127,489	127,489	
Parking Facilities	785,943	409,224	-	-	-	(376,719)	(376,719)	
Sheriff's Commissary	6,251,247	6,960,770	-	-	-	709,523	709,523	
Total business-type activities	<u>237,558,711</u>	<u>357,106,027</u>	<u>-</u>	<u>3,129,512</u>	<u>-</u>	<u>122,676,828</u>	<u>122,676,828</u>	
Total primary government	<u>\$ 1,914,208,942</u>	<u>\$ 636,501,477</u>	<u>\$ 170,733,012</u>	<u>\$ 662,578,066</u>	<u>(567,073,215)</u>	<u>122,676,828</u>	<u>(444,396,387)</u>	
Component units:								
Hospital District	\$ 901,713,000	\$ 256,316,000	\$ 169,119,000	\$ 139,818,000				\$ (336,460,000)
MHMRA	117,544,239	20,804,260	82,456,093	-				(14,283,886)
Other component units	17,671,057	2,220,001	19,460,940	-				4,009,884
Total component units	<u>\$ 1,036,928,296</u>	<u>\$ 279,340,261</u>	<u>\$ 271,036,033</u>	<u>\$ 139,818,000</u>				<u>(346,734,002)</u>
General revenues:								
Taxes:								
Property taxes levied for general purposes					839,697,264	-	839,697,264	-
Property taxes levied for debt service					17,173,337	-	17,173,337	-
Hotel occupancy tax					19,271,034	-	19,271,034	-
Earnings on investments					30,748,338	20,167,861	50,916,199	11,501,526
Miscellaneous					32,029,430	1,000,948	33,030,378	416,633,175
Gain on disposal of capital assets					876,790	-	876,790	197,633
Transfers					20,284,498	(20,284,498)	-	-
Capital assets written off					-	-	-	(1,246,268)
Special item - asset impairment					(19,073,748)	-	(19,073,748)	-
Total general revenues and other items					<u>941,006,943</u>	<u>884,311</u>	<u>941,891,254</u>	<u>427,086,066</u>
Change in net assets					<u>373,933,728</u>	<u>123,561,139</u>	<u>497,494,867</u>	<u>80,352,064</u>
Net assets - beginning (as restated, Note 21)					<u>9,865,721,868</u>	<u>181,619,192</u>	<u>10,047,341,060</u>	<u>520,499,688</u>
Net assets - ending					<u>\$ 10,239,655,596</u>	<u>\$ 305,180,331</u>	<u>\$ 10,544,835,927</u>	<u>\$ 600,851,752</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
February 28, 2006
(as restated, Note 21)

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments:			
Cash and cash equivalents	\$ 101,736,081	\$ 158,783,910	\$ 260,519,991
Investments	91,663,773	413,429,997	505,093,770
Receivables:			
Taxes, net	21,063,991	3,795,163	24,859,154
Accounts	6,790,837	52,233,256	59,024,093
Accrued interest	583,197	4,363,458	4,946,655
Lease	318,300	-	318,300
Other	58,086,441	39,473,321	97,559,762
Due from other funds	66,237,133	26,387,260	92,624,393
Due from other governmental units	-	157,521	157,521
Inventories and other assets	128,968	592,483	721,451
Restricted cash and cash equivalents	52,683,349	3,447,505	56,130,854
Restricted investments	53,459,034	12,000,000	65,459,034
Advances to other funds	-	12,000,000	12,000,000
Notes receivable	41,869	827,724	869,593
Total assets	<u>\$ 452,792,973</u>	<u>\$ 727,491,598</u>	<u>\$ 1,180,284,571</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable	\$ 23,701,413	\$ 68,093,186	\$ 91,794,599
Accrued payroll and compensated absences	62,764,593	4,333,037	67,097,630
Retainage payable	1,464,690	10,886,160	12,350,850
Due to other funds	2,693,071	46,821,761	49,514,832
Due to other governmental units	-	2,319,369	2,319,369
Customer deposits	56,650	-	56,650
Deferred revenue	40,316,232	30,425,893	70,742,125
Advances from other funds	-	12,000,000	12,000,000
Total liabilities	<u>130,996,649</u>	<u>174,879,406</u>	<u>305,876,055</u>
Fund balances:			
Reserved for:			
Encumbrances	34,233,941	229,666,466	263,900,407
Debt service	109,773,914	69,902,353	179,676,267
Imprest fund	459,939	-	459,939
Legislative	1,576,824	-	1,576,824
Inventory	-	439,459	439,459
Prepays	128,968	39,897	168,865
Advances	-	12,000,000	12,000,000
Notes receivable	41,869	-	41,869
Grant programs	-	1,669,212	1,669,212
Unreserved:			
Designated for capital projects	-	118,212,837	118,212,837
Undesignated - general fund	175,580,869	-	175,580,869
Undesignated - special revenue funds	-	120,681,968	120,681,968
Total fund balances	<u>321,796,324</u>	<u>552,612,192</u>	<u>874,408,516</u>
Total liabilities and fund balances	<u>\$ 452,792,973</u>	<u>\$ 727,491,598</u>	<u>\$ 1,180,284,571</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
February 28, 2006

Total fund balances for governmental funds \$ 874,408,516

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 3,690,889,353	
Construction in progress	464,369,121	
Land improvements, net of \$21,289 accumulated depreciation	1,810,656	
Infrastructure, net of \$3,199,291,160 accumulated depreciation	5,916,688,112	
Parks, net of \$17,394,266 accumulated depreciation	47,734,366	
Flood control projects, net of \$170,090,687 accumulated depreciation	263,537,806	
Buildings, net of \$275,392,243 accumulated depreciation	1,237,479,246	
Equipment, net of \$113,547,875 accumulated depreciation	<u>77,390,513</u>	
Total capital assets		11,699,899,173

Long-term assets are not recognized in the current period and accordingly are not reported as fund assets. Balances as of February 28, 2006 were:

Notes receivable	20,678,371	
Accrued interest receivable	4,662,986	
Deferred charges	<u>12,137,683</u>	
		37,479,040

Long-term liabilities applicable to Harris County's activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current long-term - are reported in the statement of net assets.

Balances as February 28, 2006 were:

Accrued interest on bonds and loans	(37,426,432)	
Bonds payable	(1,978,755,330)	
Judgments payable	(3,047,950)	
Notes payable	(23,135,923)	
Capital leases	(28,691,405)	
Commercial paper payable	(346,945,000)	
Landfill remediation	(3,750,000)	
Compensated absences	<u>(25,674,647)</u>	
		(2,447,426,687)

Internal service funds are used by the County. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. Internal service fund net assets are:

35,241,251

Some of the County's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

40,054,303

Total net assets of governmental activities \$ 10,239,655,596

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended February 28, 2006
(as restated, Note 21)

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 771,586,127	\$ 131,070,021	\$ 902,656,148
Charges for services	209,133,125	9,701,850	218,834,975
User fees	1,941,960	-	1,941,960
Fines and forfeitures	24,800,731	-	24,800,731
Lease revenue	2,133,952	136,385	2,270,337
Intergovernmental	33,429,471	205,642,262	239,071,733
Earnings on investments	10,205,968	17,924,748	28,130,716
Miscellaneous	40,678,359	24,287,720	64,966,079
Total revenues	<u>1,093,909,693</u>	<u>388,762,986</u>	<u>1,482,672,679</u>
EXPENDITURES			
Current operating:			
Administration of justice	563,005,788	45,872,604	608,878,392
Parks	44,400,718	5,117,245	49,517,963
County administration	192,247,201	46,932,211	239,179,412
Health and human services	106,722,239	77,648,182	184,370,421
Flood control	-	58,761,133	58,761,133
Tax administration	29,727,867	440,799	30,168,666
Roads and bridges	73,392,320	10,948,695	84,341,015
Capital outlay	16,574,360	267,362,306	283,936,666
Debt service:			
Principal retirement	32,870,000	43,730,000	76,600,000
Bond issuance costs	884,935	209,039	1,093,974
Interest and fiscal charges	54,538,144	47,264,061	101,802,205
Total expenditures	<u>1,114,363,572</u>	<u>604,286,275</u>	<u>1,718,649,847</u>
Deficiency of revenues under expenditures	<u>(20,453,879)</u>	<u>(215,523,289)</u>	<u>(235,977,168)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	56,949,025	57,492,621	114,441,646
Transfers out	(32,337,463)	(69,013,108)	(101,350,571)
Refunding bonds issued	69,845,000	34,420,000	104,265,000
Premium on debt issued	5,947,476	3,011,792	8,959,268
Commercial paper issued	-	195,581,839	195,581,839
Payment to refunding bond escrow agent	(75,134,326)	(37,101,481)	(112,235,807)
Payment to defease commercial paper	(335,000)	-	(335,000)
Capital leases	310,538	-	310,538
Contributions	-	2,500,000	2,500,000
Sale of capital assets	1,029,955	935,993	1,965,948
Total other financing sources (uses)	<u>26,275,205</u>	<u>187,827,656</u>	<u>214,102,861</u>
Net changes in fund balances	5,821,326	(27,695,633)	(21,874,307)
Fund balances, beginning	315,974,998	580,307,825	896,282,823
Fund balances, ending	<u>\$ 321,796,324</u>	<u>\$ 552,612,192</u>	<u>\$ 874,408,516</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended February 28, 2006

Net change in fund balances - total governmental funds \$ (21,874,307)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital expenditures in the current period. (50,191,586)

Capital asset donations 597,055,038

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued:			
Refunding bonds	\$ (104,265,000)		
Bond premiums	(8,959,268)		
Commercial paper	(195,582,000)		
Capital lease	(310,538)		
Repayments:			
To paying agent for bond principal	76,600,000		
To refunding bond escrow agent	112,235,867		
Defeasance of commercial paper	335,000		
Loans	1,158,534		
Capital lease principal	1,838,313		
Refunding interest expense	(1,478,167)		
Net adjustment	(118,427,259)		(118,427,259)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather as it accrues. This adjustment combines the net changes of 9 balances.

Compensated absences	(3,203,767)	
Judgments payable	1,452,350	
Landfill remediation	50,000	
Amortization of debt premium	11,449,034	
Accretion of capital appreciation bond interest	(13,375,202)	
Amortization of advanced refunding difference	(2,676,645)	
Accrued interest on debt	(49,975)	
Amortization of deferred charges	(714,079)	
Capitalization of deferred charges	928,603	
Combined adjustment	(6,139,681)	(6,139,681)

Internal service funds are used by the County. The net revenue of the internal service funds are reported with governmental activities. 9,038,285

Some of the County's receivables are classified as long-term and therefore the net of revenue and bad debt expense associated with these receivables are not reported in the funds. (18,294,446)

Because some revenues will not be collected for several months after the County's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount in the current period. (16,447,111)

The net effect of sales involving capital assets is to decrease net assets. (785,205)

Change in net assets of governmental activities \$ 373,933,728

HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
February 28, 2006

	Enterprise Funds			Internal Service Funds
	Toll Road	Nonmajor Enterprise Funds	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 9,404,182	\$ 9,404,182	\$ 11,676,077
Investments	-	1,377,259	1,377,259	31,640,819
Receivables, net	-	88,787	88,787	479,533
Accrued interest receivable	-	7,487	7,487	179,415
Other receivable	-	-	-	4,205,076
Inventories	-	173,471	173,471	2,029,233
Prepays and other assets	-	-	-	1,125,762
Due from other funds	-	749,218	749,218	2,049,317
Restricted assets:				
Cash and cash equivalents	73,992,074	-	73,992,074	-
Investments	660,789,954	-	660,789,954	-
Receivables, net	2,489,813	-	2,489,813	-
Accrued interest receivable	3,649,064	-	3,649,064	-
Other receivable	4,009,983	-	4,009,983	-
Inventories	7,031,473	-	7,031,473	-
Prepays and other assets	1,127,591	-	1,127,591	-
Total current assets	<u>753,089,952</u>	<u>11,800,404</u>	<u>764,890,356</u>	<u>53,385,232</u>
Noncurrent assets:				
Deferred charges, net of amortization	21,800,919	-	21,800,919	-
Intangible asset	87,500,000	-	87,500,000	-
Capital assets:				
Land and construction in progress	415,452,762	3,963,598	419,416,360	250,000
Other capital assets, net of depreciation	1,122,969,345	16,448,512	1,139,417,857	11,937,969
Total noncurrent assets	<u>1,647,723,026</u>	<u>20,412,110</u>	<u>1,668,135,136</u>	<u>12,187,969</u>
Total assets	<u>2,400,812,978</u>	<u>32,212,514</u>	<u>2,433,025,492</u>	<u>65,573,201</u>
LIABILITIES				
Current liabilities:				
Vouchers payable	-	346,399	346,399	1,723,565
Accrued payroll and compensated absences	-	4,841	4,841	778,434
Surplus auction payable	-	-	-	69,817
Estimated outstanding claims	-	-	-	16,094,013
Incurred but not reported claims	-	-	-	10,548,641
Customer deposits	-	189,024	189,024	41,086
Deferred revenue	-	-	-	1,024,958
Judgements payable	-	-	-	1,900
Payable from restricted assets:				
Vouchers payable	16,934,978	-	16,934,978	-
Accrued payroll and compensated absences	2,432,247	-	2,432,247	-
Retainage payable	3,190,931	-	3,190,931	-
Customer deposits	15,965,815	-	15,965,815	-
Due to other funds	51,390	-	51,390	-
Due to other units	729,527	-	729,527	-
Deferred revenue	20,970,398	-	20,970,398	-
Current portion of long-term liabilities	67,451,943	-	67,451,943	-
Total current liabilities	<u>127,727,229</u>	<u>540,264</u>	<u>128,267,493</u>	<u>30,282,414</u>
Noncurrent liabilities:				
Noncurrent portion of long-term liabilities	-	203	203	49,536
Noncurrent portion of long-term liabilities from restricted assets	1,999,577,465	-	1,999,577,465	-
Total noncurrent liabilities	<u>1,999,577,465</u>	<u>203</u>	<u>1,999,577,668</u>	<u>49,536</u>
Total liabilities	<u>2,127,304,694</u>	<u>540,467</u>	<u>2,127,845,161</u>	<u>30,331,950</u>
NET ASSETS				
Invested in capital assets, net of related debt	(421,456,777)	20,412,110	(401,044,667)	12,187,969
Restricted for:				
Capital projects	42,037,703	-	42,037,703	-
Debt service	128,539,536	-	128,539,536	-
Toll Road	524,387,822	-	524,387,822	-
Unrestricted	-	11,259,937	11,259,937	23,053,282
Total net assets	<u>\$ 273,508,284</u>	<u>\$ 31,672,047</u>	<u>\$ 305,180,331</u>	<u>\$ 35,241,251</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For The Year Ended February 28, 2006

	Enterprise Funds			Internal Service Funds
	Toll Road	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES				
Toll revenues	\$ 349,341,225	\$ -	\$ 349,341,225	\$ -
Lease revenue	-	-	-	116,403
Charges to departments	-	-	-	27,244,678
Sales	-	6,945,161	6,945,161	-
User fees	-	608,259	608,259	7,410,312
Miscellaneous	-	211,382	211,382	-
Total operating revenues	<u>349,341,225</u>	<u>7,764,802</u>	<u>357,106,027</u>	<u>34,771,393</u>
OPERATING EXPENSES				
Salaries	28,771,452	644,889	29,416,341	7,652,854
Materials and supplies	7,265,279	1,715,634	8,980,913	640,481
Services and fees	28,748,034	771,444	29,519,478	5,725,562
Utilities	2,288,230	291,872	2,580,102	518,590
Transportation and travel	525,709	-	525,709	4,006,456
Incurred claims	-	-	-	5,152,141
Estimated claims	-	-	-	(1,192,343)
Cost of goods sold	-	3,292,901	3,292,901	5,909,923
Depreciation	51,818,107	587,769	52,405,876	5,426,624
Total operating expenses	<u>119,416,811</u>	<u>7,304,509</u>	<u>126,721,320</u>	<u>33,840,288</u>
Operating income	<u>229,924,414</u>	<u>460,293</u>	<u>230,384,707</u>	<u>931,105</u>
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	19,799,582	368,279	20,167,861	1,187,088
Interest expense	(97,189,289)	-	(97,189,289)	(5,313)
Lease revenue	1,000,948	-	1,000,948	-
Loss on disposal of capital assets	(5,199)	-	(5,199)	(6,384)
Amortization expense	(13,642,903)	-	(13,642,903)	-
Other nonoperating revenue (expense)	-	-	-	40,411
Total nonoperating revenues (expenses)	<u>(90,036,861)</u>	<u>368,279</u>	<u>(89,668,582)</u>	<u>1,215,802</u>
Income before contributions and transfers	<u>139,887,553</u>	<u>828,572</u>	<u>140,716,125</u>	<u>2,146,907</u>
Contributions	3,129,512	-	3,129,512	-
Transfers in	-	-	-	7,132,395
Transfers out	(20,241,030)	(43,468)	(20,284,498)	(241,017)
Total contributions and transfers	<u>(17,111,518)</u>	<u>(43,468)</u>	<u>(17,154,986)</u>	<u>6,891,378</u>
Change in net assets	122,776,035	785,104	123,561,139	9,038,285
Net assets, beginning	150,732,249	30,886,943	181,619,192	26,202,966
Net assets, ending	<u>\$ 273,508,284</u>	<u>\$ 31,672,047</u>	<u>\$ 305,180,331</u>	<u>\$ 35,241,251</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For The Year Ended February 28, 2006

	Enterprise Funds			Internal Service Funds
	Toll Road	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 354,459,908	\$ 7,391,661	\$ 361,851,569	\$ 34,901,537
Payment to employees	(28,415,098)	(644,447)	(29,059,545)	(7,617,748)
Payment to vendors	(41,798,961)	(6,057,840)	(47,856,801)	(17,248,593)
Internal activity - net payments to other funds	20,783	-	20,783	-
Claims paid	-	-	-	(5,981,485)
Other receipts	-	-	-	40,411
Net cash provided by operating activities	<u>284,266,632</u>	<u>689,374</u>	<u>284,956,006</u>	<u>4,094,122</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Contributions from other entity	211,399	-	211,399	-
Receipts from lease agreements	1,000,948	-	1,000,948	-
Transfers from other funds	-	-	-	7,132,395
Transfers to other funds	(20,241,030)	(43,468)	(20,284,498)	(241,017)
Net cash provided by (used for) noncapital financing activities	<u>(19,028,683)</u>	<u>(43,468)</u>	<u>(19,072,151)</u>	<u>6,891,378</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(94,802,483)	(133,638)	(94,936,121)	(4,665,791)
Purchases of intangible assets	(50,000,000)	-	(50,000,000)	-
Principal paid on capital debt	(185,610,503)	-	(185,610,503)	-
Interest paid on capital debt	(93,392,386)	-	(93,392,386)	-
Proceeds from capital debt	300,244,240	-	300,244,240	-
Bond issuance cost	(2,171,495)	-	(2,171,495)	-
Net cash used for capital and related financing activities	<u>(125,732,627)</u>	<u>(133,638)</u>	<u>(125,866,265)</u>	<u>(4,665,791)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(604,551,686)	(1,385,648)	(605,937,334)	(39,248,287)
Proceeds from sales and maturities of investments	508,513,307	1,009,957	509,523,264	29,823,319
Interest received	16,796,191	365,111	17,161,302	1,073,837
Net cash used for investing activities	<u>(79,242,188)</u>	<u>(10,580)</u>	<u>(79,252,768)</u>	<u>(8,351,131)</u>
Net change in cash and cash equivalents	60,263,134	501,688	60,764,822	(2,031,422)
Cash and cash equivalents, beginning	13,728,940	8,902,494	22,631,434	13,707,499
Cash and cash equivalents, ending	<u>\$ 73,992,074</u>	<u>\$ 9,404,182</u>	<u>\$ 83,396,256</u>	<u>\$ 11,676,077</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	\$ 229,924,414	\$ 460,293	\$ 230,384,707	\$ 931,105
Adjustment to reconcile operating income to net cash provided by operating activities:				
Depreciation	51,818,107	587,769	52,405,876	5,426,624
Other nonoperating revenues (expenses)	-	-	-	40,411
Changes in current assets and liabilities:				
Receivables, net	887,683	31,122	918,805	(282,097)
Prepays and other assets	1,222,490	(398,745)	823,745	(237,769)
Inventories	2,061,731	(2,959)	2,058,772	(341,707)
Vouchers payable and accrued liabilities	(3,563,713)	16,970	(3,546,743)	(1,931,768)
Due to other governmental units	547,612	-	547,612	-
Other liabilities	2,074,278	(5,518)	2,068,760	-
Judgements payable	-	-	-	1,900
Deferred revenue	4,231,000	-	4,231,000	461,407
Retainage payable	(4,965,490)	-	(4,965,490)	-
Compensatory time payable	28,520	442	28,962	26,016
Net cash provided by operating activities	<u>\$ 284,266,632</u>	<u>\$ 689,374</u>	<u>\$ 284,956,006</u>	<u>\$ 4,094,122</u>
Non-Cash Operating, Capital and Related Financing, and Investing Activities:				
Capital contributions received from other governments	\$ 2,918,113	\$ -	\$ 2,918,113	\$ -
Increase (decrease) in the fair value of investments	(1,506,404)	30,072	(1,476,332)	(27,167)

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
February 28, 2006

	INSURANCE TRUST FUND	AGENCY FUNDS (as restated, Note 21)
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 11,913,278	\$ 271,250,925
Investments	10,818,899	165,390,963
Accounts receivable	330,570	79,652
Other receivables	-	1,323,773
Accrued interest receivable	58,821	1,347,770
Due from other funds	-	12,984
Total assets	<u>23,121,568</u>	<u>\$ 439,406,067</u>
LIABILITIES		
Vouchers payable	4,326,365	173,126
Due to other funds	-	45,869,690
Incurred but not reported claims	14,042,879	-
Held for others	-	393,363,251
Total liabilities	<u>18,369,244</u>	<u>\$ 439,406,067</u>
NET ASSETS		
Held in trust	<u>\$ 4,752,324</u>	

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended February 28, 2006

	INSURANCE TRUST FUND
ADDITIONS	
Contributions:	
Employer	\$ 100,642,323
Plan members	31,219,087
Total contributions	131,861,410
Investment earnings:	
Net decrease in fair value of investments	(7,187)
Interest	638,760
Total investment earnings	631,573
Total additions	132,492,983
DEDUCTIONS	
Benefits	130,190,006
Estimated Claims	77,322
Refunds of contributions	33,725
Administrative expenses	165,024
Total deductions	130,466,077
Change in net assets	2,026,906
Net assets, beginning (as restated, Note 21)	2,725,418
Net assets, ending	\$ 4,752,324

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS - COMPONENT UNITS
FEBRUARY 28, 2006

	Mental Health Mental Retardation Authority of Harris County	Harris County Hospital District	Nonmajor Component Units	Total
ASSETS				
Cash and cash equivalents	\$ 24,210,912	\$ 68,880,000	\$ 2,559,719	\$ 95,650,631
Investments, including accrued interest	3,000,000	320,760,000	7,097,604	330,857,604
Receivables:				
Taxes, net	-	43,055,000	-	43,055,000
Accounts, net	6,393,007	50,429,000	17,978	56,839,985
Other	6,270,090	-	1,179,549	7,449,639
Inventories	468,269	5,446,000	-	5,914,269
Prepays and other assets	930,271	52,470,000	304,417	53,704,688
Restricted cash and investments	28,155	89,202,000	4,487,049	93,717,204
Capital assets:				
Land, improvements, and construction in progress	3,414,853	21,640,000	4,565,387	29,620,240
Other capital assets, net of depreciation	20,313,056	174,847,000	14,337,704	209,497,760
Total assets	<u>65,028,613</u>	<u>826,729,000</u>	<u>34,549,407</u>	<u>926,307,020</u>
LIABILITIES				
Vouchers payable and accrued liabilities	11,769,745	106,482,000	1,572,144	119,823,889
Other liabilities	-	52,173,000	-	52,173,000
Deferred revenue	51,146	-	786,975	838,121
Accrued interest payable	-	489,000	-	489,000
Noncurrent liabilities:				
Due within one year	1,477,355	8,120,000	44,694	9,642,049
Due in more than one year	12,569,215	127,658,000	2,261,994	142,489,209
Total liabilities	<u>25,867,461</u>	<u>294,922,000</u>	<u>4,665,807</u>	<u>325,455,268</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,681,339	49,897,000	4,643,937	64,222,276
Restricted for:				
Capital projects	8,441	33,872,000	-	33,880,441
Donor restrictions	1,868,637	-	1,480,721	3,349,358
Unrestricted net assets	27,602,735	448,038,000	23,758,942	499,399,677
Total net assets	<u>\$ 39,161,152</u>	<u>\$ 531,807,000</u>	<u>\$ 29,883,600</u>	<u>\$ 600,851,752</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
COMPONENT UNITS
For The Year Ended February 28, 2006

	Mental Health Mental Retardation Authority of Harris County	Harris County Hospital District	Nonmajor Component Units	Total
REVENUES				
Program Revenues:				
Charges for services	\$ 20,804,260	\$ 256,316,000	\$ 2,220,001	\$ 279,340,261
Operating grants and contributions	82,456,093	169,119,000	19,460,940	271,036,033
Capital grants, contributions and other	-	139,818,000	-	139,818,000
Total program revenues	<u>103,260,353</u>	<u>565,253,000</u>	<u>21,680,941</u>	<u>690,194,294</u>
EXPENSES	<u>117,544,239</u>	<u>901,713,000</u>	<u>17,671,057</u>	<u>1,036,928,296</u>
Net (expenses) program revenues	<u>(14,283,886)</u>	<u>(336,460,000)</u>	<u>4,009,884</u>	<u>(346,734,002)</u>
General Revenues (Expenses):				
Earnings on investments	727,239	10,621,000	153,287	11,501,526
Other	22,760,615	393,831,000	41,560	416,633,175
Gain on sale of capital assets	197,633	-	-	197,633
Capital assets written off	(1,246,268)	-	-	(1,246,268)
Net general revenues (expenses)	<u>22,439,219</u>	<u>404,452,000</u>	<u>194,847</u>	<u>427,086,066</u>
Change in net assets	8,155,333	67,992,000	4,204,731	80,352,064
Net assets, beginning	31,005,819	463,815,000	25,678,869	520,499,688
Net assets, ending	<u>\$ 39,161,152</u>	<u>\$ 531,807,000</u>	<u>\$ 29,883,600</u>	<u>\$ 600,851,752</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Harris County, Texas ("County") have been prepared in conformity with generally accepted accounting principles ("GAAP") in the United States of America for local governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant accounting and reporting policies of the County are described in the following notes to the financial statements.

A. REPORTING ENTITY

The County is a public corporation and a political subdivision of the State of Texas. The County is governed by Commissioners Court, composed of four County Commissioners and the County Judge, all of whom are elected officials.

The County provides a vast array of services which include public safety, administration of justice, health and human services, culture and recreation services, public improvements, flood control and general administration.

As required by GAAP, the financial statements of the reporting entity include those of the County (the primary government) and its component units in conformity with GASB Statement No. 14, *The Financial Reporting Entity* ("GASB 14") and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* ("GASB 39").

In accordance with these standards, a financial reporting entity consists of the primary government and its component units. Component units are legally separate organizations for which the elected officials of the County are financially accountable, or the relationship to the County is such that exclusion would cause the County's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the County's operations, and so data from these units are combined with data of the County. Each discretely presented component unit, on the other hand, is reported in a separate column under the component unit total column on the combined statements to emphasize that it is legally separate from the government.

The criteria used to determine whether an organization is a component unit of the County and whether it is a discretely or a blended component unit includes: financial accountability of Harris County for the component unit, appointment of a voting majority, ability to impose the County's will on the component unit, fiscal dependency criterion, and whether there is a financial benefit to or burden to the County.

Blended Component Units. For financial reporting purposes, the Harris County Flood Control District, the Harris County Juvenile Board and the Harris County Sports & Convention Corporation are included in the operations and activities of the County as blended component units.

Harris County Flood Control District ("Flood Control District"). The Flood Control District provides program, policies and flood control issues to protect homes and businesses from the hazards of flooding and facilitate economic development. The County prepares and approves the

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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budget, sets the tax rate and approves all bond issuance of the Flood Control District. The criteria used to include the Flood Control District as a blended component unit of the County include: the County appoints a voting majority of the Flood Control District's governing body, the County is able to impose its will on the Flood Control District, and the County's and the Flood Control District's governing bodies are substantially the same.

Harris County Juvenile Board ("Juvenile Board"). The Juvenile Board monitors all of the department's programs, institutional services, and residential placement facilities. It also sets administrative policies and approves the department's annual budget prior to submission to Commissioners Court. The County has ministerial approval rights over the Juvenile Board budget. The criteria used to include the Juvenile Board as blended component unit of the County include: fiscal dependency and that the Juvenile Board provides services entirely to the County.

Harris County Sports & Convention Corporation ("Sports and Convention Corporation"). The Sports and Convention Corporation was formed to aid and act on behalf of the County in the managing, operation, maintenance and development of the Reliant Park complex. The criteria used to include the Sports & Convention Corporation as a blended component unit of the County include: the County appoints a voting majority of the Sports & Convention Corporation's governing body, the County is able to impose its will on the Sports & Convention Corporation through the approval of the Corporation's annual budget, provision of funding to the Corporation, and the rights to any surpluses of the Corporation, and the County's and the Sports & Convention Corporation's governing bodies are substantially the same.

Discretely Presented Component Units. The component unit column in the combined financial statements includes the financial data of the County's discrete component units. These units are reported in a separate column to emphasize that they are legally separate from the County.

Harris County Hospital District ("Hospital District"). The Hospital District provides medical, dental and hospital care for Harris County's indigent and needy. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing board of the Hospital District are appointed by Commissioners Court, Commissioners Court approves the Hospital District's tax rate and annual budget but does not provide any funding or hold title to any of the Hospital District's assets, and the Hospital District cannot issue bonded debt without Commissioners Court approval. Complete financial statements may be obtained from:

Chief Financial Officer
Harris County Hospital District
2500 First City Tower
Houston, Texas 77002

Harris County Housing Finance Corporation ("Housing Finance Corporation"). The Housing Finance Corporation is exempt from federal income tax and is authorized to issue debt instruments for the purpose of purchasing single family home mortgages and providing financing for multifamily projects, both relating to low and moderate income residents. The criterion used to determine the Housing Finance Corporation's inclusion as a discretely presented component unit is based on the Housing Finance Corporation's fiscal dependency on the County, as Commissioners Court must approve all bond issuance and members of the governing bodies are

HARRIS COUNTY, TEXAS
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all appointed by Commissioners Court. The Housing Finance Corporation was created by Commissioners Court but is not a political subdivision of Harris County under state law. Services provided by the Housing Finance Corporation are to the citizenry and not to the County. Complete financial statements may be obtained from:

Board President – W.F. Burge, III
Harris County Housing Finance Corporation
1001 Fannin, Suite 2300
Houston, Texas 77002-6760

Mental Health and Mental Retardation Authority (“MHMRA”) of Harris County. The MHMRA is a public agency providing services for residents of the County who do not require long-term institutional mental health care. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing Board of Directors are appointed by Commissioners Court and the County approves the MHMRA's budget, but does not hold title to any of the MHMRA's assets. MHMRA can issue bonded debt without approval from the County. Complete financial statements may be obtained from:

Chief Financial Officer – David Witt
MHMRA
7011 Southwest Freeway
Houston, TX 77074

Harris County Industrial Development Corporation (“Industrial Development Corporation”). The Industrial Development Corporation provides financing through the issuance of municipal bonds for qualified manufacturing and certain other facilities located in the County. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing body are appointed by Commissioners Court and the Industrial Development Corporation has the authority to issue bonded debt, which must be approved by Commissioners Court, however, the County has no obligation to assume the bonded debt. In addition, the Industrial Development Corporation does not provide services to the County. Complete financial statements may be obtained from:

Board President – Robert L. Silvers
Fulbright & Jaworski, L.L.P.
1301 McKinney, Suite 5100
Houston, Texas 77010-3095

Children’s Assessment Center Foundation, Inc. (“CACF”). The Foundation was created to raise and provide funding for the Children’s Assessment Center (“CAC”). The CAC provides a safe haven to sexually abused children and their families. CAC employs an extraordinarily effective, multidisciplinary team approach in the prevention, assessment, investigation, referral for prosecution and treatment of child sexual abuse. The criteria used to determine inclusion as a

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discretely presented component unit are: CACF provides a direct benefit to the County, has a history of supporting the County and the resources are significant to the County. Complete financial statements may be obtained from:

Chief Financial Officer - Betsey Runge
The Children's Assessment Center Foundation
2500 Bolsover
Houston, TX 77005

Harris County Housing Authority ("Housing Authority"). The Housing Authority was formed to provide decent, safe and sanitary housing for low to moderate income families. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing body are appointed by Commissioners Court and the employees are leased County Employees. In addition, the Housing Authority provides services to the citizenry, not to the County. Complete financial statements may be obtained from:

Controller - David Gunter
Harris County Housing Authority
8410 Lantern Point
Houston, TX 77054

Harris County Health Facilities Development Corporation ("HFDC"). The HFDC provides financing for qualified health facilities. Eligible projects must improve the adequacy, cost and accessibility of health care in Houston, Texas. Under the current tax code, eligible borrowers are limited to non-profit corporations. HFDC financing costs are limited to land, buildings, and equipment. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing body are appointed by Commissioners Court and the County approves the HFDC's budget and any bonded debt issued by the HFDC. HFDC is not required to issue separate audited financial statements and therefore are not included in the component unit column of the County's financial statements, but information relating to conduit debt can be found in note 10 D in the notes to the financial statements.

Harris County Cultural Education Facilities Finance Corp. ("CEFFC"). The CEFFC provides and finances cultural education facilities for the exhibition and promotion of and education about the performing, dramatic, visual and literary arts, natural history and science for the public purpose of promoting the health, education and welfare of the citizens of the County. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing body are appointed by Commissioners Court and the services of CEFFC are provided to the citizenry and not to the County. CEFFC is not required to issue separate audited financial statements and therefore are not included in the component unit column of the County's financial statements, but information relating to conduit debt can be found in note 10 D in the notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
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Condensed Financial Statements. Condensed financial statements of each discretely presented component unit discussed above are presented. The fiscal year-ends for the discretely presented component units are as follows:

- Harris County Hospital District: February 28, 2006
- Harris County Housing Finance Corporation: December 31, 2005
- Mental Health and Mental Retardation Authority of Harris County: August 31, 2005
- Harris County Industrial Development Corporation: August 31, 2005
- Children’s Assessment Center Foundation, Inc.: February 28, 2006
- Harris County Housing Authority: March 31, 2005

B. RELATED ORGANIZATIONS AND JOINTLY GOVERNED ORGANIZATIONS

Related organizations and jointly governed organizations provide services within the County that are administered by separate boards or commissions, but the County is not financially accountable, and such organizations are therefore not component units of the County, even though Commissioners Court may appoint a voting majority of an organization's board. Consequently, financial information for the following entities is not included within the scope of these financial statements.

Related Organizations. Related organizations of the County include the Emergency Service Districts which were created to implement emergency services to specific areas.

Jointly Governed Organizations. The County is a participant in jointly governed organizations. Commissioners Court appoints two of seven board members of the Port of Houston Authority; four of thirty-seven board members of the Gulf Coast Community Services Association; three of nineteen board members of the Harris-Galveston Coastal Subsidence District; two of thirty-five board members of the Houston-Galveston Area Council; two of nine board members of the Metropolitan Transit Authority of Harris County; six of thirteen board members of the Harris County/Houston Sports Authority, and the chairman is appointed jointly by Harris County and the City of Houston.

During fiscal year 2006, the County disbursed the following amounts to these organizations: \$57,454 to the Port of Houston Authority, \$35,791 to Harris-Galveston Coastal Subsidence District, \$136,523 to Houston-Galveston Area Council and \$1,445,378 to the Metropolitan Transit Authority of Harris County. The County also collected \$9,283,743 from the Port of Houston Authority, \$585,971 from Houston-Galveston Area Council, \$19,030,295 from the Metropolitan Transit Authority of Harris County, and \$45,231 from the Harris County/Houston Sports Authority.

The County is also a participant in several jointly governed Tax Increment Reinvestment Zones (“TIRZs”) with the City of Houston and the City of La Porte. Commissioners Court appoints one of the board members for each of the 10 City of Houston TIRZs, (6 non-petitioned and 4 petitioned zones) that the County jointly governs. Non-petitioned TIRZs are governed by between five and fifteen directors. Each taxing jurisdiction levying taxes within the TIRZ are allotted one position on the board, while the City of Houston appoints a

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minimum of five directors. Petition TIRZ boards must have nine members that include: five City of Houston representatives; one State Senator appointment; one State Representative appointment; one representative each from the County and school district (if one participating in the zone). The County also participates in one City of La Porte non-petitioned TIRZ which the County appoints one board member.

During fiscal year 2006, the County disbursed \$5,984,020 to the City of Houston TIRZs and \$4,688 to the City of La Porte TIRZ. The County collected \$1,799,946 from the City of Houston petitioned TIRZs.

C. IMPLEMENTATION OF NEW STANDARDS

In the current year the County implemented the following new standards:

GASB Statement No. 40, *Deposits and Investment Risk Disclosures – an amendment of GASB Statement No. 3* (“GASB 40”), which addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair market values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed. Implementation of GASB 40 did not have an impact on the County’s financial statements for the year ended February 28, 2006, but required additional disclosures (see Note 2) related to deposits and investment risks.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (“GASB 42”), establishes standards that define capital asset impairment and specifies how various types of impairment losses will be measured, reported and disclosed. It also clarifies and establishes reporting and disclosure of all insurance recoveries. Implementation of GASB 42 is reflected in the government-wide financial statements and Note 7 as a revaluation of an asset.

D. FINANCIAL STATEMENT PRESENTATION, MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-wide Statements

Government wide financial statements consist of the Statement of Net Assets and the Statement of Activities. These statements report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for

HARRIS COUNTY, TEXAS
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which they are levied. Fines and forfeitures are recognized when they have been assessed and adjudicated and earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Statement of Activities demonstrates the degree to which the direct expenses of the County's programs are offset by those programs' revenues. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Program revenues include those generated from administration of justice, parks, County administration, health and human services, flood control, tax administration, and roads and bridges. Taxes and other items not included among program revenues are reported instead as general revenues. In miscellaneous general revenues are non program specific contributions including capital asset contributions.

Fiduciary funds are excluded in the government-wide presentation of the financial statements.

Fund-level Statements

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers property taxes and other revenues as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on governmental long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Grant and entitlement revenues are also susceptible to accrual. Encumbrances are used during the year and any unliquidated items are reported at year-end as a reservation of fund balance. These funds are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds, including the enterprise and internal service funds, and fiduciary funds, including agency funds, are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses when they are incurred. Claims incurred but not reported are included in payables and expenses. These funds are accounted for using a cost of service or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included in the funds' statement of net assets. The agency funds are custodial in nature and involve no measurement of results of operations.

HARRIS COUNTY, TEXAS
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The accounts of the County are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

Funds are classified into three categories: Governmental, Proprietary and Fiduciary. The major funds of the County are noted within each category.

GOVERNMENTAL FUNDS: Used to account for all or most of a government's general activity.

General Fund - used to account for the general operations of the County and limited-tax permanent improvement debt service of the County.

PROPRIETARY FUNDS: Enterprise funds are used to account for operations that are financed in a manner similar to those in the private sector, where the determination of net income is appropriate for sound financial administration.

Toll Road Enterprise Fund - used to account for the acquisition, operation, and maintenance of County toll roads. These facilities are financed primarily through user charges.

FIDUCIARY FUNDS: Used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The County reports one trust fund and twelve agency funds as nonmajor fiduciary funds. The Insurance Trust Fund is used to account for County employees' and retirees' group insurance benefits. Agency funds are used to account for assets held by the County as an agent on behalf of various third parties outside the primary government.

Additionally, the County reports the following fund types:

Internal Service Funds: Proprietary funds used to account for the financing of goods and services provided by one department or agency of the County to other County departments or agencies on a cost reimbursement basis. The County reports five internal service funds: 1) Vehicle Maintenance – to account for the County's vehicle maintenance department financed through user charges, 2) Auction Proceeds – to account for the County's sale of surplus items, 3) Radio Operations – to account for the operation of County radios, 4) Inmate Industries – to account for operation of the printing shop provided by inmates to County departments, and 5) Risk Management – to account for the County's workers' compensation and other risk management activities.

The County and its Component Units apply all GASB pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, to business-type activities and enterprise funds, under the provision of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing goods in connection with the proprietary fund's principal operations. The principal operating revenues of the Subscriber Access and Parking Facilities Enterprise Funds are user fees. Operating revenues of the Sheriff's Commissary Enterprise Fund are comprised of sales revenue from the sale of items to inmates. Toll Road Enterprise Fund operating revenues consist of fees assessed each time a vehicle passes through a toll station on the County's toll roads. Operating revenues in the Internal Service Funds consist primarily of charges to the various County departments, plus lease revenue reported in the Vehicle Maintenance and Radio Operations Funds. Operating expenses in the enterprise and internal service funds include the cost of sales and services, administrative expenses, incurred and estimated claims and reinsurance, utilities, travel and transportation, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources to the extent they are needed.

E. BUDGETS

Harris County adheres to the following procedures in its consideration and adoption of its annual operating budget:

- Departmental annual budget requests are submitted by the Department or Agency Head to the County Budget Officer during the third quarter of the fiscal year for the upcoming fiscal year to begin March 1.
- The County Auditor prepares an estimate of available resources for the upcoming fiscal year.
- The County Budget Officer prepares the proposed annual operating budget to be presented to the Commissioners Court for their consideration. The budget represents the financial plan for the new fiscal year.
- Public hearings are held on the proposed budget.
- The Commissioners Court must adopt an annual operating budget by a majority vote of the Commissioners Court before April 1. The adopted budget must be balanced; that is, available resources must be sufficient to support annual appropriations.
- Annual budgets are legally adopted for the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.
- The department is the legal level of budgetary control for General Fund-Operating. Commissioners Court approval is necessary to transfer appropriations between departments. Transfers may not increase the total budget. Budgetary control for Special Revenue Funds, Debt Service Funds and Capital Project Funds is at the fund level.
- The Commissioners Court may approve expenditures as an amendment to the budget in an

HARRIS COUNTY, TEXAS
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emergency situation that could not have been foreseen at the time the original budget was approved.

- The Commissioners Court may adopt a supplemental budget for the limited purpose of spending proceeds of the sale of bonds or other obligations to be issued against future revenues and public or private grant or aid money for its intended purpose.
- The County Auditor shall certify to the Commissioners Court the receipt of all public or private grant or aid money that is available for disbursement in a fiscal year, but not included in the budget for the fiscal year.
- For financial reporting purposes several funds created for budgetary purposes may be combined into a single column on the CAFR.
- Appropriations lapse at year-end for all funds except Special Revenue Grants and Capital Project Funds.
- Budgets are prepared on a cash basis (budget basis) which differs from GAAP basis.

A reconciliation of revenues and expenditures on a cash basis (budgetary basis) compared to modified accrual basis (GAAP) is presented in the Notes to Required Supplementary Information.

F. RESTRICTED ASSETS

Certain assets of the County's General Fund are classified as restricted assets because their use is restricted for a specific purpose by contract or state statute. The County uses the General Fund to account for the debt service on bonds issued for permanent improvement purposes. The County also uses the General Fund to account for bank accounts maintained by the Juvenile Probation Department and to account for seized assets in the custody of the District Attorney.

All of the Toll Road Enterprise Fund's assets, except deferred charges and net property, are classified as restricted assets because their use is completely restricted by bond indentures.

G. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents include amounts in demand deposits as well as short-term investments with a maturity date of 90 days or less from date of purchase. Investments are stated at fair value, which is based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the difference between the purchase price and market price being recorded as earnings on investments.

H. INTERFUND TRANSACTIONS

During the course of normal operations, the County has many transactions between funds. The accompanying Fund Level financial statements reflect as transfers the resources provided and expenditures used to provide services, construct assets and meet debt service requirements. The effect of interfund activity has been eliminated in the Government-wide financial statements, except for transactions between governmental and business-type activities.

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I. INVENTORY

Inventory is stated at the lower of cost or market value, using the first-in, first-out method for proprietary fund types. Purchases of inventories for governmental funds are recorded as expenditures when purchased in the governmental fund financial statements.

J. PREPAIDS AND OTHER ASSETS

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both the government-wide and fund level financial statements.

K. DEFERRED CHARGES AND PREMIUMS (DISCOUNTS) ON BONDS PAYABLE

Deferred charges consist of bond issuance costs of the bonds. Such costs are amortized on a straight-line basis over the term of the bonds. Premiums (discounts) on bonds payable are amortized using the effective interest method over the term of the bonds.

L. CAPITAL ASSETS AND INFRASTRUCTURE

Capital assets include land (including easements and right of ways), land improvements, buildings and building improvements, park improvements and facilities, equipment (including machinery, vehicles, animals, other tangible assets, exhaustible works of art and historical treasures and computer software), and infrastructure that are used in the County's operations and benefit more than a single fiscal year. Infrastructure assets are long-lived assets that are generally stationary in nature and can typically be preserved for a significantly greater number of years than other capital assets. Infrastructure assets of the County include roads, bridges, flood control facilities, lighting, storm sewers, and tunnels.

Capital assets of the County are defined as assets with individual costs of \$5,000 or more and estimated useful lives in excess of one year. Exceptions to the \$5,000 capitalization threshold are as follows: it is the County's policy to capitalize all land, easements, and works of art and historical treasures, regardless of the historical cost. The threshold for capitalizing land improvements, buildings and building improvements and park improvements is \$100,000. The capitalization threshold for infrastructure ranges from \$25,000 to \$250,000, depending on the type of infrastructure asset.

All capital assets are stated at historical cost or estimated historical cost if actual cost is not available. Donated fixed assets are stated at their estimated fair value on the date donated.

It is the County's policy not to capitalize interest on construction for capital assets reported in the governmental activities of the government-wide financial statements. The Toll Road Enterprise Fund capitalizes, as a cost of its constructed property, the interest expense and certain other costs of bonds issued for construction purposes less the interest earned on the proceeds of those bonds from the date of the borrowing until the date the property is ready for use. During fiscal year 2006, \$1,716,506 of interest expense was capitalized.

Capital assets are depreciated in the government-wide financial statements using the straight-line method over the following useful lives:

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<u>Asset</u>	<u>Years</u>	<u>Asset</u>	<u>Years</u>
Land improvements	20	Computer software	5
Buildings	45	Infrastructure:	
Park facilities	30	Bridges	40
Equipment	3-20	Flood control channels	25-75
Machinery	15	Roads	20-50
Vehicles	4-15	Lighting	20
Animals	7	Storm sewers	30-75
Other tangible assets	5	Tunnels	40
Exhaustible works of art and historical treasures	10		

M. NET ASSETS AND FUND BALANCES

NET ASSETS CLASSIFICATIONS

Net assets in the proprietary fund financial statements and the government-wide financial statements are classified in three categories: 1) Net assets invested in capital assets, net of related debt, 2) Restricted net assets, and 3) Unrestricted net assets.

RESERVATIONS, DESIGNATIONS, AND RESTRICTIONS

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. These specific purposes include: debt service and grant programs. Designations of fund balance represent tentative management plans that are subject to change.

In the proprietary fund financial statements and in the government-wide financial statements, restricted net assets are reported for amounts that are externally restricted by 1) creditors (e.g. bond covenants), grantors, contributors, or laws and regulations of other governments or 2) law through constitutional provision or enabling legislation.

N. COMPENSATED ABSENCES

Accumulated compensatory time, vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures in the respective governmental funds. Accumulated compensated absences not expected to be liquidated with expendable available resources are reported as long-term liabilities in the governmental activities column of the government-wide Statement of Activities. The majority of these have typically been liquidated from the General Fund in previous years. A liability for compensated absences is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Accumulated compensated absences of Proprietary Funds are recorded as an expense and liability in the respective fund and the business-type activities column of the government-wide Statement of Activities as the benefit accrues for the employee.

Employees are allowed to accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as expenditures as they are used by the employees. Employees may accumulate up to 480 hours of sick leave. Unused sick leave benefits are not paid at termination. Employees with

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more than one year of service accrue from two to four weeks vacation per year, depending on years of service. Unused vacation benefits lapse at calendar year-end except for exempt employees who may convert up to 40 hours of such benefits to compensatory time, subject to a 240 hour maximum. Upon termination, employees are paid unused vacation benefits accrued during the year.

Non-exempt employees earn compensatory time at one and one-half times their full rate of pay times the excess of 40 hours per week worked. The compensatory time balance for non-exempt employees may not exceed 240 hours. Hours in excess of the 240 hour maximum must be paid to the non-exempt employee at the rate of one and a half times the regular rate. Upon termination, non-exempt employees will be paid for compensatory time at their wage rate at time of termination. Exempt employees earn compensatory time at their regular rate of pay for hours worked in excess of 40 hours a week. Exempt employees can accumulate up to 240 hours of compensatory time. Upon termination, exempt employees are paid one-half of the compensatory time earned at the wage rate at time of termination. Compensatory time is carried forward indefinitely.

O. STATEMENT OF CASH FLOWS

For purposes of cash flows, the County considers cash equivalents to include all highly liquid investments (including restricted) with a maturity of three months or less when purchased.

P. DEFERRED REFUNDING LOSS

The difference between the reacquired price and net carrying amount of old debt incurred due to a bond refunding transaction is deferred and amortized in a manner that is systematic and rational over the remaining life of the old or new debt, whichever is shorter.

Q. USE OF 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 amounts of assets and liabilities and the disclosure 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 results could differ from those estimates.

R. COMPONENT UNIT TAX REVENUES

The Hospital District is partially financed by property tax levies (recorded as operating revenues), and partially financed by user charges, the usual revenue source for a proprietary fund activity. However, because of the unique character of services provided by the Hospital District, proprietary fund accounting is necessary to provide meaningful measurement of cost of services of the Hospital District.

2. DEPOSITS AND INVESTMENTS

Deposits: Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance (FDIC) is available for funds deposited at any one

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financial institution up to a maximum of \$100,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available.

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. At February 28, 2006, the carrying amount of the County's demand and time deposits was \$92,241,339 and the balance per various financial institutions was \$19,753,103. The County's deposits are not exposed to custodial credit risk since all deposits are either covered by FDIC insurance or collateralized with securities held by the County or its agent in the County's name, in accordance with the Public Funds Collateral Act.

Investments: Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes Harris County to invest its funds pursuant to a written investment policy which primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity.

The Harris County Investment policy is reviewed and approved annually by Commissioners Court. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type, and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

AUTHORIZED INVESTMENTS

Harris County funds may be invested in the following investment instruments provided that such instruments meet the guidelines of the investment policy:

1. Obligations of the US or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies and instrumentalities.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, with a stated final maturity of 10 years or less.
4. Other obligations the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of this state or the US.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated and to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent.
6. Certificates of deposit issued by a state or national bank domiciled in this state or a savings and

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loan association domiciled in this state that are guaranteed or insured by the FDIC or secured by authorized investments that have a market value of not less than the principal amount of the certificates.

7. Fully collateralized repurchase agreements that the County has obtained a signed master repurchase agreement with the company into which the agreement is entered, as authorized by the Public Funds Investment Act.
8. Commercial paper with a stated maturity of 270 days or fewer from the date of issuance as authorized by the Public Funds Investment Act.
9. No-load money market mutual funds regulated by the SEC, with a dollar-weighted average stated maturity of 90 days or fewer and which include in their investment objectives the maintenance of a stable net asset value of \$1 per share as authorized by the Public Funds Investment Act.
10. Guaranteed Investment Contracts as authorized by the Public Funds Investment Act.
11. Public Funds Investment Pools as authorized by the Investment Act.

Summary of Cash and Investments

Harris County's cash and investments are stated at fair value. The following is a summary of cash and investments held by the County at February 28, 2006:

	Governmental Funds	Proprietary Funds	Total	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 260,519,991	\$ 21,080,259	\$ 281,600,250	\$ 283,164,203	\$ 564,764,453
Restricted Cash and Cash Equivalents	56,130,854	73,992,074	130,122,928	-	130,122,928
Investments	505,093,770	33,018,078	538,111,848	176,209,862	714,321,710
Restricted Investments	65,459,034	660,789,954	726,248,988	-	726,248,988
Total Cash & Investments	\$ 887,203,649	\$ 788,880,365	\$ 1,676,084,014	\$ 459,374,065	\$ 2,135,458,079

Harris County follows the practice of pooling investments for many of the funds identified on the financial statements. Most of the general fund is pooled with other County funds for investment purposes. Interest income earned on pooled cash and investments is allocated each accounting period to the various funds based on the ending cash balances. For financial statement purposes, the principal value of pooled investments is allocated between the participating funds.

The following table indicates the fair value and maturity value of the County's investments as of February 28, 2006, summarized by security type. Also demonstrated are the percentage of total portfolio and the weighted average maturity in days for each summarized security type.

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Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
<i>US Agency Notes</i>					
FAMCA	\$ 4,960,450	0.24%	\$ 5,000,000	0.0004	AAA/Aaa
FFCB	49,066,695	2.40%	49,550,000	0.0371	AAA/Aaa
FHLB	492,995,924	24.13%	498,625,000	0.2573	AAA/Aaa
FHLMC	462,114,003	22.62%	468,551,000	0.1896	AAA/Aaa
FNMA	387,387,792	18.96%	391,641,000	0.1693	AAA/Aaa
<i>Commercial Paper</i>					
AGFC	66,475,251	3.25%	66,791,000	0.0030	A-1/P-1
AMEX	42,871,850	2.10%	43,157,000	0.0028	A-1/P-1
FCAR	73,386,741	3.59%	73,660,000	0.0026	A-1+/P-1
GECC	103,724,569	5.08%	104,052,000	0.0034	A-1+/P-1
TMCC	29,146,157	1.43%	29,255,000	0.0010	A-1+/P-1
<i>Local Governments</i>					
Chicago, Illinois	2,950,561	0.14%	3,000,000	0.0012	AAA/Aaa
Dover, Delaware	978,694	0.05%	1,000,000	0.0006	AAA/Aaa
Indiana BD BK	4,284,709	0.21%	4,315,000	0.0008	AAA/Aaa
Los Angeles, California	13,159,799	0.64%	13,235,000	0.0033	AAA/Aaa
State of Oregon	669,025	0.03%	680,000	0.0004	AAA/Aaa
Philadelphia, Pennsylvania	3,484,652	0.17%	3,525,000	0.0017	AAA/Aaa
Rancho Santiago CCD (CA)	992,754	0.05%	1,000,000	0.0002	AAA/Aaa
San Antonio, Texas	487,699	0.02%	500,000	0.0002	AAA/Aaa
State of Texas	5,508,405	0.27%	5,425,000	0.0068	AAAa1
State of Texas	11,688,813	0.57%	11,820,000	0.0030	AAAa2
<i>Money Market Mutual Funds</i>					
Investors Cash Trust Govt Sec	43,000,000	2.11%	43,000,000	N/A	AAAm/Aaa
AIM STIT Treasury Portfolio	170,308,130	8.34%	170,308,130	N/A	AAAm/Aaa
Fidelity Instl MMKT Tax Exempt	73,574,067	3.60%	73,574,067	N/A	AAAm/Aaa
Total Investments	<u>2,043,216,740</u>	<u>100.00%</u>	<u>\$ 2,061,664,197</u>	<u>0.6847</u>	
<i>Demand and Time Deposits</i>	92,241,339				
Total Cash & Investments	<u><u>\$ 2,135,458,079</u></u>				

RISK DISCLOSURES

Interest Rate Risk: All investments carry the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by matching cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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According to the County investment policy, no more than 25% of the portfolio, excluding those investments held for future capital expenditures, debt service payments, bond fund reserve accounts and capitalized interest funds, may be invested beyond 24 months. Additionally at least 15% of the portfolio, with the previous exceptions, is invested in overnight instruments or in marketable securities which can be sold to raise cash within one day's notice. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed two years. As of February 28, 2006, the County was in compliance with all of these guidelines to manage interest rate risk.

Credit Risk and Concentration of Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County mitigates these risks by emphasizing the importance of a diversified portfolio. All funds must be sufficiently diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In particular, no more than 50% of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer. Concentration by issuer for other investment instruments is not specifically addressed in the investment policy. However, the policy does specify that acceptable investment instruments must have high quality credit ratings and, consequently, risk is minimal.

The County's investment policy establishes minimum acceptable credit ratings for certain investment instruments. Securities of states, agencies, counties, cities and other political subdivisions must be rated as to investment quality by a nationally recognized investment rating firm as AA or its equivalent. Money market mutual funds and public funds investment pools must be rated Aaa by Moody's Investor Rating Service.

The Harris County Sports & Convention Corporation (the "Corporation"), a blended component unit of the County, maintains investments made during the fiscal year ended February 28, 2003 of \$12 million in the Sports Authority's Subordinate Lien Notes Series 2001 C-1 and Series 2001 C-2 which are not in compliance with Chapter 2256 of the Texas Government Code because the notes did not receive a rating from at least one nationally recognized investment rating firm.

Custodial Credit Risk: Investments are exposed to custodial credit risk if the investments are uninsured, are not registered in the County's name and are held by the counterparty. In the event of the failure of the counterparty, the County may not be able to recover the value of its investments that are held by the counterparty. As of February 28, 2006, all of the County's investments are held in the County's name.

Foreign Currency Risk: Foreign currency risk is the risk that fluctuations in the exchange rate will adversely affect the value of investments denominated in a currency other than the US dollar. The County Investment Policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the County is not exposed to foreign currency risk.

FUND INVESTMENT CONSIDERATIONS

The Investment Policy outlines specific investment strategies for each fund or group of funds identified on the Harris County financial statements. The two investment strategies employed by

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Harris County are the Matching Approach and the Barbell Approach. The Matching Approach is an investment method that matches maturing investments with disbursements. Matching requires an accurate forecast of disbursement requirements. The Barbell Approach is an investment method where maturities are concentrated at two points, one at the short end of the investment horizon and the other at the long end. Additionally, the Investment Policy specifies average investment durations for each fund type, excluding Pooled Investments. Specific guidelines have not been established for Pooled Investments, but the same standards that were developed for the General Fund Group are also applicable to Pooled Investments. The investment strategies and maturity criteria are outlined in the following table.

Fund Type	Investment Strategy	Avg Investment Duration Per Policy (Days)	Maturity Amount	Average Remaining Days To Maturity
Pooled Investments	Matching	360	\$ 396,005,000	177
Public Improvement Contingency	Barbell	1,800	120,487,000	688
General Fund Group	Matching/Barbell	360	55,851,000	225
Special Revenue Funds	Matching	720	34,691,000	108
Debt Service Funds	Matching	270	168,812,000	147
Capital Project Funds	Matching	1,080	222,505,000	246
Proprietary Funds	Matching/Barbell	1,080	32,534,000	179
Toll Road Project Funds	Matching	1,080	373,426,000	277
Toll Road Renewal/Replacement	Matching	1,800	160,973,000	535
Toll Road Bond Reserve	Matching	1,800	22,973,000	1,232
County Clerk Registry	Matching/Barbell	2,520	82,900,000	391
District Clerk Registry	Matching/Barbell	2,520	73,625,000	257
Harris Co/Metro Joint Escrow	Matching/Barbell	5,400	30,000,000	864
Money Market Mutual Funds	N/A	N/A	286,882,197	N/A
			<u>\$ 2,061,664,197</u>	

3. PROPERTY TAXES

COUNTY

Property taxes for the County and the Flood Control District are levied each October 1 on the taxable value as of the preceding January 1 for all taxable real and personal property. Taxes are due and payable when levied. On January 1, at the time of assessment, an enforceable lien is attached to the property for property taxes. All tax payments not received by February 1, after the taxes are levied, are considered delinquent. Accordingly, no current taxes receivable are reported. Appraised values are determined by the Harris County Appraisal District (“Appraisal District”) equal to 100% of the appraised market value as required by the State Property Tax Code. Real property must be appraised at least every four years. Taxpayers and taxing units may challenge appraisals of the Appraisal District through various appeals and, if necessary, legal action.

The County is responsible for setting the tax rate for the County, the Flood Control District, the Hospital District and Port of Houston Authority for debt service only. The County adopted the 2005 tax rate, per \$100 of taxable value, for the County and Flood Control District as follows:

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	<u>Operations and Maintenance</u>	<u>Debt Service</u>	<u>Total</u>
Harris County			
Constitutional Funds	\$ 0.34728	\$ 0.03047	\$ 0.37775
Road Debt Service	-	0.02211	0.02211
	<u>\$ 0.34728</u>	<u>\$ 0.05258</u>	<u>\$ 0.39986</u>
Total - Harris County			
Flood Control District	<u>\$ 0.02733</u>	<u>\$ 0.00589</u>	<u>\$ 0.03322</u>

The County is permitted by law to levy tax rates for general fund, jury fund, road and bridge fund and permanent improvement fund purposes up to \$0.80 per \$100 of taxable valuation. The County levied a tax rate of \$0.39986 per \$100 of taxable valuation subject to the \$0.80 tax rate limitation, of which \$0.37775 per \$100 valuation was for Constitutional Funds, and a tax rate of \$0.02211 per \$100 valuation was for the Road Debt Service.

The Flood Control District is permitted by law to levy a tax rate up to \$0.30 per \$100 of taxable valuation. There is no limitation on the tax rate which may be set for debt service within the \$0.30 tax rate limit. The tax rate for operations and maintenance is limited to the rate as may from time to time be approved by the voters of the Flood Control District. The maximum tax rate for operations and maintenance is \$0.15 per \$100 of taxable valuation. A tax rate of \$0.02733 per \$100 valuation was levied in 2005 for the Flood Control District's operations and maintenance. The County Tax Assessor bills and collects the taxes for the County, Flood Control District, Hospital District, Port of Houston Authority, City of Houston and various area junior colleges and fire protection districts. Collections of the property taxes and subsequent remittances to the proper entities are accounted for in the Tax Assessor's Agency Fund. Tax collections deposited for the County and Flood Control District are distributed on a periodic basis to the respective General Funds and Debt Service Funds. These distributions are based upon the tax rate established for each fund by order of the Commissioners Court for the tax year for which the collections are made.

Property tax receivables of \$24,859,154 as of February 28, 2006 are reported net of an allowance for uncollectible taxes of \$178,828,635.

COMPONENT UNITS

The Hospital District receives property taxes levied by the County Commissioners Court for operations. Ad Valorem tax revenues are recorded at the time the taxes are assessed, net of provisions for uncollected amounts and collection expenses. Subsequent adjustments to the tax rolls, made by the County Tax Assessor, are included in the revenues in the period such adjustments are made by the County Tax Assessor.

Property tax receivables of \$43,055,000 as of February 28, 2006 are reported net of an allowance for uncollectible taxes of \$54,236,000 for the Hospital District.

4. RECEIVABLES

The County reports accounts receivables and other receivables in the various funds for amounts to be

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received from customers, granting agencies, and the Tax Assessor. Additionally, the County reports receivables from other governments as due from other governmental units. A breakdown of these receivables at February 28, 2006 is as follows:

RECEIVABLES, OTHER RECEIVABLES AND DUE FROM OTHER GOVERNMENTAL UNITS

	Customers	Granting Agencies	Tax Assessor	Department of Housing and Urban Development	Totals
General	\$ 31,364,107	\$ -	\$ 33,513,171	\$ -	\$ 64,877,278
Nonmajor Governmental	52,577,069	29,971,382	9,158,126	157,521	91,864,098
Toll Road	6,499,796	-	-	-	6,499,796
Nonmajor Enterprise	88,787	-	-	-	88,787
Internal Service	4,684,609	-	-	-	4,684,609
Component Units	58,019,534	6,270,090	-	-	64,289,624
Totals	<u>\$ 153,233,902</u>	<u>\$36,241,472</u>	<u>\$ 42,671,297</u>	<u>\$ 157,521</u>	<u>\$ 232,304,192</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and proprietary funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenues in the governmental funds and proprietary funds were as follows:

	Unavailable	Unearned
Taxes receivable (General fund)	\$ 21,063,991	\$ -
Taxes receivable (nonmajor governmental funds)	3,795,163	-
Grant funding (nonmajor governmental funds)	-	19,929,675
Other receivables (General fund)	15,456,610	3,795,631
Other receivables (nonmajor governmental funds)	2,894,649	3,806,406
Other receivables (Toll Road fund)	-	20,970,398
Other receivables (internal service funds)	-	1,024,958
Total deferred revenue for governmental funds and proprietary funds	<u>\$ 43,210,413</u>	<u>\$ 49,527,068</u>

5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

In the fund financial statements, interfund balances are the result of normal transactions between funds and will be liquidated in the subsequent fiscal year. Balances between individual governmental funds and between governmental funds and internal service funds are eliminated in the government-wide financial statements.

The interfund receivable and payable balances, by individual major fund, other governmental funds (aggregated), other proprietary funds (aggregated), internal service funds (aggregated), and fiduciary funds as of February 28, 2006 are as follows:

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	<u>Receivable</u>	<u>Payable</u>
Current:		
General	\$ 66,237,133	\$ 2,693,071
Nonmajor Governmental	26,387,260	46,821,761
Toll Road	-	51,390
Nonmajor Enterprise	749,218	-
Internal Service	2,049,317	-
Agency	12,984	45,869,690
Total Current	<u>95,435,912</u>	<u>95,435,912</u>
Long Term:		
Nonmajor Governmental	12,000,000	12,000,000
Total	<u>\$ 107,435,912</u>	<u>\$ 107,435,912</u>

The following is a summary of the County's transfers for the year ended February 28, 2006:

	Transfers In:				
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Internal Service</u>	<u>Government-Wide Governmental</u>	<u>Total</u>
Transfers Out:					
General	\$ -	\$ 25,678,538	\$ 6,658,925	\$ -	\$ 32,337,463
Nonmajor Governmental	36,949,025	31,814,083	250,000	-	69,013,108
Toll Road	20,000,000	-	180,002	61,028	20,241,030
Nonmajor Enterprise	-	-	43,468	-	43,468
Internal Service	-	-	-	241,017	241,017
Total	<u>\$ 56,949,025</u>	<u>\$ 57,492,621</u>	<u>\$ 7,132,395</u>	<u>\$ 302,045</u>	<u>\$ 121,876,086</u>

Toll Road transferred \$20,000,000 to the General fund for funding of a County thoroughfare program. All other transfers are routine in nature.

6. INTANGIBLE ASSETS

On December 17, 2002, the Commissioners Court authorized a tri-party agreement among Harris County (acting through the Harris County Toll Road Authority), TxDOT and Federal Highway Administration to participate in the reconstruction of IH10 Katy Freeway. Under this agreement, the Authority will provide funding in the amount of \$237.5 million, net of \$12.5 million credit for design, construction, operation and maintenance of a Toll Facility. The Authority's financial commitment will span nine payments over a five-year period. As of February 28, 2006, three payments have been made for a total of \$87.5 million. The payments pay for the license to the real property within the limits of and for the right to operate the Toll Facility. Toll Revenues from the operation of the Toll Facility will be collected by the Authority until the County is paid in full. The Toll Facility will revert to the State when the County has been fully paid the reimbursement from revenue or upon payment by the State to the County of an amount equal to the difference between the total amount of the reimbursement and the actual amount paid to the County as of the date of such reversion. The Toll Facility may revert to the State at any time after such full payment, subject to the State giving the County 90 days' prior written notice.

7. CAPITAL ASSETS

COUNTY

Capital asset activity for the year ended February 28, 2006 was as follows:

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	Balance				Balance
	March 1, 2005	Additions	Deletions	Transfers	February 28, 2006
Governmental Activities:					
Land	\$ 3,651,069,539	\$ 40,673,657	\$ (786,928)	\$ 183,085	\$ 3,691,139,353
Construction in progress	478,533,445	244,624,394	(7,205,819)	(251,582,899)	464,369,121
Total capital assets not depreciated	<u>4,129,602,984</u>	<u>285,298,051</u>	<u>(7,992,747)</u>	<u>(251,399,814)</u>	<u>4,155,508,474</u>
Land improvements	393,027	-	-	1,438,918	1,831,945
Infrastructure	9,007,475,010	99,451,906	-	9,052,356	9,115,979,272
Park facilities	59,452,060	5,552,833	-	123,739	65,128,632
Flood control projects	396,173,803	-	-	37,454,690	433,628,493
Buildings	865,265,692	470,484,739	(20,078,294)	198,667,921	1,514,340,058
Equipment	199,293,521	28,647,108	(8,933,047)	4,932,057	223,939,639
	<u>10,528,053,113</u>	<u>604,136,586</u>	<u>(29,011,341)</u>	<u>251,669,681</u>	<u>11,354,848,039</u>
Less accumulated depreciation for:					
Land improvements	-	(21,289)	-	-	(21,289)
Infrastructure	(2,939,649,485)	(259,641,675)	-	-	(3,199,291,160)
Park facilities	(15,353,811)	(2,040,455)	-	-	(17,394,266)
Flood control projects	(157,415,509)	(12,675,178)	-	-	(170,090,687)
Buildings	(256,300,121)	(20,136,121)	340,930	-	(276,095,312)
Equipment	(121,528,826)	(22,097,003)	8,458,010	(208,838)	(135,376,657)
	<u>(3,490,247,752)</u>	<u>(316,611,721)</u>	<u>8,798,940</u>	<u>(208,838)</u>	<u>(3,798,269,371)</u>
Total capital assets being depreciated, net	<u>7,037,805,361</u>	<u>287,524,865</u>	<u>(20,212,401)</u>	<u>251,460,843</u>	<u>7,556,578,668</u>
Governmental activities capital assets, net	<u>\$ 11,167,408,345</u>	<u>\$ 572,822,916</u>	<u>\$ (28,205,148)</u>	<u>\$ 61,029</u>	<u>\$ 11,712,087,142</u>

The \$61,029 balance in the transfers column is due to assets that were transferred between the governmental and business-type funds. Per implementation of GASB 42, the governmental activities buildings have be revalued for the write down (\$19,073,748) of the Franklin Jail due to change in use of the asset.

	Balance				Balance
	March 1, 2005	Additions	Deletions	Transfers	February 28, 2006
Business-type Activities:					
Land	\$ 245,351,749	\$ 7,718,601	\$ -	\$ (214,838)	\$ 252,855,512
Construction in progress	288,802,233	87,932,647	-	(210,174,032)	166,560,848
Total capital assets not depreciated	<u>534,153,982</u>	<u>95,651,248</u>	<u>-</u>	<u>(210,388,870)</u>	<u>419,416,360</u>
Land improvements	694,561	-	-	-	694,561
Infrastructure	1,471,748,408	256,060	-	210,800,967	1,682,805,435
Other tangible assets	514,250	-	-	2,900,550	3,414,800
Buildings	38,953,911	-	-	425,351	39,379,262
Equipment	13,970,629	1,446,926	(86,938)	(4,007,865)	11,322,752
	<u>1,525,881,759</u>	<u>1,702,986</u>	<u>(86,938)</u>	<u>210,119,003</u>	<u>1,737,616,810</u>
Less accumulated depreciation for:					
Land improvements	(45,509)	(34,728)	-	-	(80,237)
Infrastructure	(531,375,562)	(50,181,393)	-	-	(581,556,955)
Other tangible assets	(137,133)	(102,850)	-	-	(239,983)
Buildings	(6,152,047)	(854,370)	-	-	(7,006,417)
Equipment	(8,351,789)	(1,232,535)	60,125	208,838	(9,315,361)
	<u>(546,062,040)</u>	<u>(52,405,876)</u>	<u>60,125</u>	<u>208,838</u>	<u>(598,198,953)</u>
Total capital assets being depreciated, net	<u>979,819,719</u>	<u>(50,702,890)</u>	<u>(26,813)</u>	<u>210,327,841</u>	<u>1,139,417,857</u>
Business-type activities capital assets, net	<u>\$ 1,513,973,701</u>	<u>\$ 44,948,358</u>	<u>\$ (26,813)</u>	<u>\$ (61,029)</u>	<u>\$ 1,558,834,217</u>

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Depreciation expense was charged to the programs of the primary government as follows:

Governmental activities:

Administration of Justice	\$ 18,041,619
Parks	11,663,798
County Administration	11,599,621
Health and Human Services	1,693,426
Flood Control	13,712,923
Tax Administration	226,458
Roads and Bridges	259,673,876
	<u>\$ 316,611,721</u>

Business-type activities:

Subscriber Access	\$ 78,119
Parking Facilities	450,586
Sheriff's Commissary	59,064
Toll Road	51,818,107
	<u>\$ 52,405,876</u>

COMPONENT UNITS

	Fiscal Year Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Fiscal Year Ending Balance
<u>MHMRA (August 31, 2005)</u>				
Land	\$ 3,567,045	\$ -	\$ (152,192)	\$ 3,414,853
Buildings & Improvements	25,672,216	784,755	(1,708,629)	24,748,342
Equipment, Furniture & Vehicles	9,417,922	727,439	(2,039,383)	8,105,978
	<u>38,657,183</u>	<u>1,512,194</u>	<u>(3,900,204)</u>	<u>36,269,173</u>
Less accumulated depreciation for:				
Buildings & Improvements	(8,412,268)	(932,466)	1,245,588	(8,099,146)
Equipment, Furniture & Vehicles	(5,831,639)	(1,153,929)	1,256,156	(5,729,412)
	<u>(14,243,907)</u>	<u>(2,086,395)</u>	<u>2,501,744</u>	<u>(13,828,558)</u>
MHMRA capital assets, net	<u>\$ 24,413,276</u>	<u>\$ (574,201)</u>	<u>\$ (1,398,460)</u>	<u>\$ 22,440,615</u>
<u>Hospital District (February 28, 2006)</u>				
Land & Improvements	\$ 18,716,000	\$ 1,586,000	\$ -	\$ 20,302,000
Construction in progress	3,510,000	-	(2,172,000)	1,338,000
Total capital assets not depreciated	<u>22,226,000</u>	<u>1,586,000</u>	<u>(2,172,000)</u>	<u>21,640,000</u>
Buildings and Improvements	268,865,000	9,858,000	(10,000)	278,713,000
Equipment	175,431,000	16,543,000	(5,849,000)	186,125,000
	<u>444,296,000</u>	<u>26,401,000</u>	<u>(5,859,000)</u>	<u>464,838,000</u>
Less accumulated depreciation	(264,651,000)	(30,985,000)	5,645,000	(289,991,000)
	<u>(264,651,000)</u>	<u>(30,985,000)</u>	<u>5,645,000</u>	<u>(289,991,000)</u>
Total capital assets being depreciated, net	<u>179,645,000</u>	<u>(4,584,000)</u>	<u>(214,000)</u>	<u>174,847,000</u>
Hospital District capital assets, net	<u>\$ 201,871,000</u>	<u>\$ (2,998,000)</u>	<u>\$ (2,386,000)</u>	<u>\$ 196,487,000</u>

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The Hospital District records land, buildings, improvements and equipment at cost or fair market value at the time of donation and includes expenditures for new facilities and equipment and those which substantially increase the useful life of existing assets. Depreciation of facilities and equipment is provided using the straight-line method over the estimated useful lives of the assets.

MHMRA records all governmental capital assets at cost, except for donated fixed assets, which are recorded at their fair market value on the date donated. Depreciation is reported at the government-wide level using the straight-line method over the estimated useful lives of the assets. The schedule included here does not include the capital assets of MHMRA's component units (a net value of \$1,287,294).

8. CAPITAL LEASES PAYABLE AND INSTALLMENT PURCHASES

The County has entered into several capital lease agreements for the purchase of buildings, one for Sports and Convention Corporation signage, one for Sports and Convention Corporation equipment, and two for County equipment; the amounts capitalized are \$34,287,691, \$838,850, \$1,279,012, and \$310,538, respectively. Payments for the buildings, signage and equipment during the fiscal year ended February 28, 2006 totaled \$3,239,118, \$175,000 and \$241,976, respectively. Payments, including interest at an average rate of 8.9% per annum for buildings, 8.25% per annum for signage, 6.0% for one equipment lease and no interest for the other two equipment leases, are due as follows as of February 28, 2006:

<u>Fiscal year</u>	<u>Governmental Activities</u>		
	<u>Buildings</u>	<u>Signage</u>	<u>Equipment</u>
2007	\$ 3,231,451	\$ 175,000	\$ 241,976
2008	3,178,874	175,000	241,976
2009	2,969,767	131,250	194,863
2010	2,969,767	-	150,000
2011	2,969,767	-	150,000
2012-2016	13,828,267	-	379,012
2017-2021	10,422,413	-	-
2022-2024	691,166	-	-
Total future lease payments	40,261,472	481,250	1,357,827
Less: Interest	(13,347,422)	(52,025)	(9,697)
	<u>\$ 26,914,050</u>	<u>\$ 429,225</u>	<u>\$ 1,348,130</u>

9. OTHER LIABILITIES

The balances Due to Other Governmental Units, by Fund, as of February 28, 2006 are as follows:

<u>Receivable Entity</u>	<u>Payable Entity</u>	
Department of Housing & Urban Development	Special Revenue Fund - Grants	\$ 2,319,369
Fort Bend Toll Authority	Toll Road	729,527
Total Due to Other Governmental Units		<u>\$ 3,048,896</u>

HARRIS COUNTY, TEXAS
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10. SHORT-TERM DEBT

Tax Anticipation Notes

The County issues tax anticipation notes in advance of property tax collections, depositing the proceeds in its general fund. These notes are necessary because the County's payments to other local agencies are made on January 1 and July 1, whereas tax collections are received shortly before their April 1 and October 1 due dates.

Activity for the year ended February 28, 2006, was as follows:

	<u>Outstanding March 1, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding February 28, 2006</u>
Governmental Activities				
Tax Anticipation Notes	\$ -	\$ 295,000,000	\$ (295,000,000)	\$ -

Promissory Notes

The County authorized a promissory note for the purchase of property in connection with the Fort Bend Parkway Extension Phase II Project. The note is non-interest bearing and is due in full by August 31, 2005. The liability is recorded in the toll road fund as a short term note payable.

Activity for the year ended February 28, 2006, was as follows:

	<u>Outstanding March 1, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding February 28, 2006</u>
Business-type Activities				
Promissory Notes	\$ 3,860,000	\$ -	\$ (3,860,000)	\$ -

11. LONG-TERM DEBT

The changes in the County's Governmental Long-Term Debt and Enterprise Fund Debt for fiscal year 2005-2006 were as follows:

HARRIS COUNTY, TEXAS
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	Outstanding March 1, 2005	Issued/ Increased	Redeemed/ (Decreased)	Outstanding February 28, 2006	Due Within Year
(1) Governmental Long-Term Debt:					
<u>General Obligation Debt</u>					
Road Bonds - Principal	\$ 571,019,962	\$ 34,420,000	\$ (58,840,000)	\$ 546,599,962	\$ 19,140,620
Permanent Improvement Bonds - Principal	640,946,629	69,845,000	(56,965,000)	653,826,629	26,955,000
Flood Control Bonds - Principal	385,229,985	-	(18,975,000)	366,254,985	17,070,000
Total Principal General Obligation Debt	1,597,196,576	104,265,000	(134,780,000)	1,566,681,576	63,165,620
Unamortized Premium, Road Series 1993	3,819,058	-	(1,680,691)	2,138,367	-
Unamortized Premium, Road Series 2003A	1,176,562	-	(338,220)	838,342	-
Unamortized Premium, Road Series 2003B	3,884,848	-	(178,622)	3,706,226	-
Unamortized Premium, Road Series 2004A	5,210,307	-	(710,362)	4,499,945	-
Unamortized Premium, Road Series 2004B	6,131,618	-	(268,229)	5,863,389	-
Unamortized Premium, Road Series 2005A	-	3,011,792	(131,066)	2,880,726	-
Unamortized Premium, PIB Series 2002	7,095,955	-	(1,369,970)	5,725,985	-
Unamortized Premium, PIB Series 2003A	1,194,044	-	(364,322)	829,722	-
Unamortized Premium, PIB Series 2003B	7,095,459	-	(1,714,132)	5,381,327	-
Unamortized Premium, PIB Series 2004A	8,227,613	-	(452,395)	7,775,218	-
Unamortized Premium, PIB Series 2005A	-	5,947,476	(444,041)	5,503,435	-
Unamortized Premium, CJC Series 2004	3,057,734	-	(373,818)	2,683,916	-
Unamortized Premium, FC Series 1993	3,842,149	-	(829,196)	3,012,953	-
Unamortized Premium, FC Series 2002	647,605	-	(138,655)	508,950	-
Unamortized Premium, FC Series 2003A	689,856	-	(480,092)	209,764	-
Unamortized Premium, FC Series 2003B	9,225,619	-	(412,658)	8,812,961	-
Unamortized Premium, FC Series 2004A	10,766,130	-	(1,085,352)	9,680,778	-
Bond Refunding Loss, Road Series 2003A	(556,817)	-	52,613	(504,204)	-
Bond Refunding Loss, Road Series 2004A	(2,837,563)	-	225,502	(2,612,061)	-
Bond Refunding Loss, Road Series 2005A	-	(2,596,946)	103,098	(2,493,848)	-
Bond Refunding Loss, PIB Series 2002	(4,951,521)	-	998,407	(3,953,114)	-
Bond Refunding Loss, PIB Series 2003A	(340,944)	-	44,960	(295,984)	-
Bond Refunding Loss, PIB Series 2005A	-	(3,320,754)	252,920	(3,067,834)	-
Bond Refunding Loss, CJC Series 2004	(4,953,879)	-	266,576	(4,687,303)	-
Bond Refunding Loss, FC Series 2002	(153,173)	-	49,773	(103,400)	-
Bond Refunding Loss, FC Series 2003A	(353,245)	-	33,378	(319,867)	-
Accretion of Discount - Capital Appreciation Bonds:					
Road Series 1993	15,054,187	2,630,884	-	17,685,071	7,176,232
Road Series 1996	18,180,795	2,860,458	-	21,041,253	-
PIB Series 1996	9,976,696	1,569,674	-	11,546,370	-
GO Revenue Series 2002	9,565,726	4,142,928	-	13,708,654	-
Flood Control Series 1993	13,738,745	2,171,258	-	15,910,003	-
Total General Obligation Debt	1,721,630,140	120,681,770	(143,724,594)	1,698,587,316	70,341,852
<u>Tax and Subordinate Lien Revenue Bonds</u>					
Tax and Subordinate Lien Revenue					
Forward Refunding, Series 1998	37,780,000	-	(3,855,000)	33,925,000	4,070,000
Tax and Subordinate Lien Revenue					
Refunding, Series 2004A	3,680,000	-	-	3,680,000	-
Tax and Subordinate Lien Revenue					
Refunding, Series 2004B	176,800,000	-	-	176,800,000	-
Unamortized Premium, Series 2004A	110,540	-	(16,133)	94,407	-
Unamortized Premium, Series 2004B	9,566,231	-	(277,016)	9,289,215	-
Bond Refunding Loss, Series 2004A	(14,062)	-	1,875	(12,187)	-
Bond Refunding Loss, Series 2004B	(14,112,586)	-	647,543	(13,465,043)	-
Total Tax and Subordinate Lien Revenue Bonds	213,810,123	-	(3,498,731)	210,311,392	4,070,000

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(1) Governmental Long-Term Debt (cont.):	Outstanding March 1, 2005	Issued/ Increased	Redeemed/ (Decreased)	Outstanding February 28, 2006	Due Within Year
<u>Certificates of Obligation</u>					
Series 1998	61,755,000	-	(29,225,000)	32,530,000	2,170,000
Series 2001	31,100,000	-	(13,580,000)	17,520,000	785,000
Series 2002	18,840,000	-	-	18,840,000	-
Unamortized Premium, Series 2002	1,150,686	-	(184,064)	966,622	-
Total Certificates of Obligation	<u>112,845,686</u>	<u>-</u>	<u>(42,989,064)</u>	<u>69,856,622</u>	<u>2,955,000</u>
Total Bonds Payable	<u>2,048,285,949</u>	<u>120,681,770</u>	<u>(190,212,389)</u>	<u>1,978,755,330</u>	<u>77,366,852</u>
Commercial Paper Payable	151,698,000	195,582,000	(335,000)	346,945,000	7,129,545
Compensatory Time Payable	22,693,331	21,361,149	(18,154,665)	25,899,815	20,201,857
Obligations Under Capital Leases	30,219,180	310,538	(1,838,313)	28,691,405	1,963,801
Landfill Remediation	3,800,000	-	(50,000)	3,750,000	-
Judgments Payable	4,500,300	-	(1,450,450)	3,049,850	1,900
Notes Payable	24,294,457	-	(1,158,534)	23,135,923	19,261,398
Total Governmental Long-Term Debt	<u>\$ 2,285,491,217</u>	<u>\$ 337,935,457</u>	<u>\$ (213,199,351)</u>	<u>\$ 2,410,227,323</u>	<u>\$ 125,925,353</u>

(2) Business-type Long-Term Debt:	Outstanding March 1, 2005	Issued/ Increased	Redeemed/ (Decreased)	Outstanding February 28, 2006	Due Within Year
Senior Lien Revenue Bonds	\$ 1,106,830,000	\$ 207,765,000	\$ (19,920,000)	\$ 1,294,675,000	\$ 20,890,000
Tax Bonds	717,527,049	-	(6,105,251)	711,421,798	6,922,906
Total Bond Principal	<u>1,824,357,049</u>	<u>207,765,000</u>	<u>(26,025,251)</u>	<u>2,006,096,798</u>	<u>27,812,906</u>
Unamortized Discount, Rev. Series 1994A	(794)	-	794	-	-
Unamortized Discount, Rev. Series 1997	(1,424,721)	-	65,335	(1,359,386)	-
Unamortized Premium, Rev. Series 2002	8,309,190	-	(1,386,773)	6,922,417	-
Unamortized Premium, Rev. Series 2004A	6,191,913	-	(145,263)	6,046,650	-
Unamortized Premium, Rev. Series 2004B	38,458,915	-	(4,290,001)	34,168,914	-
Unamortized Discount, Rev. Series 2005A	-	(217,715)	1,967	(215,748)	-
Unamortized Premium, Rev. Series 2005A	-	8,827,543	(53,100)	8,774,443	-
Unamortized Premium, Tax Series 1991	11,438,163	-	(4,842,580)	6,595,583	-
Unamortized Premium, Tax Series 1992A	3,431,614	-	(1,261,608)	2,170,006	-
Unamortized Premium, Tax Series 1992B	1,113,111	-	(422,560)	690,551	-
Unamortized Premium, Tax Series 1994A	2,264,720	-	(335,192)	1,929,528	-
Unamortized Premium, Tax Series 1995A	20,642,578	-	(1,814,663)	18,827,915	-
Unamortized Premium, Tax Series 1997	3,859,675	-	(695,259)	3,164,416	-
Unamortized Premium, Tax Series 2001	1,297,905	-	(93,096)	1,204,809	-
Unamortized Premium, Tax Series 2002	2,097,146	-	(189,045)	1,908,101	-
Unamortized Discount, Tax Series 2003	(2,063,916)	-	(540,711)	(2,604,627)	-
Accretion of Discount - Capital Appreciaton Bonds:					
Unlimited Tax Series 1991	48,235,337	7,953,930	(16,560,000)	39,629,267	16,018,050
Unlimited Tax Series 1992A and 1992B	26,025,148	4,034,436	(4,115,000)	25,944,584	9,720,866
Revenue Series 1994A	10,473,531	1,314,232	(3,959,749)	7,828,014	4,024,298
Unlimited Tax Series 1995A	13,205,064	3,581,820	(7,390,000)	9,396,884	-
Unlimited Tax Series 1997	5,417,225	1,436,456	(1,190,000)	5,663,681	1,049,145
Deferred Amount on Refunding	(149,981,935)	-	12,531,570	(137,450,365)	-
Accrued Interest Payable	4,859,105	75,687,015	(71,719,442)	8,826,678	8,826,678
Total Bonds Payable	<u>1,878,206,023</u>	<u>310,382,717</u>	<u>(134,429,627)</u>	<u>2,054,159,113</u>	<u>67,451,943</u>
Commercial Paper Payable	39,960,000	85,040,000	(125,000,000)	-	-
Compensatory Time Payable	594,485	551,551	(475,588)	670,448	522,949
Judgments Payable	13,223,000	-	(500,000)	12,723,000	-
Totals - Business-type Long-Term Debt	<u>\$ 1,931,983,508</u>	<u>\$ 395,974,268</u>	<u>\$ (260,405,215)</u>	<u>\$ 2,067,552,561</u>	<u>\$ 67,974,892</u>

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A. BONDED DEBT

Bonded debt of the County consists of various issues of General Obligation Bonds, Certificates of Obligation and Revenue Bonds. General Obligation Bonds and Certificates of Obligation are direct obligations of the County with the County's full faith and credit pledged towards the payment of this obligation. General Obligation Bonds are issued upon approval by the public at an election. Certificates of Obligation are issued by the vote of Commissioners Court as allowed under the Certificates of Obligation Act. Debt service is primarily paid from ad valorem taxes. Revenue Bonds are generally payable from the pledged revenue generated by the respective activity for which the bonds are issued.

Outstanding governmental bonded debt as of February 28, 2006 follows:

	Interest Rates (%)	Date Series		Balance February 28, 2006
		Issued	Matures	
<u>Road Bonds</u>				
Refunding Series 1993 - CAB	5.35-5.55%	1993	2015	\$ 6,224,962
Refunding Series 1996	5.00-5.55%	1996	2012	45,790,000
Refunding Series 1996 - CAB	5.90-6.00%	1996	2017	26,260,000
Refunding Series 2001	4.00-5.375%	2001	2023	132,580,000
Refunding Series 2003A	3.00-5.25%	2003	2015	23,870,000
Refunding Series 2003B	5.00-5.25%	2003	2023	76,510,000
Refunding Series 2004A	3.00-5.00%	2004	2017	56,055,000
Refunding Series 2004B	3.75-5.25%	2004	2024	144,890,000
Refunding Series 2005A	5.00%	2005	2022	34,420,000
				<u>546,599,962</u>
<u>Permanent Improvement Bonds</u>				
Refunding Series 1996	5.25%	1996	2012	10,310,000
Refunding Series 1996 - CAB	5.90-6.00%	1996	2017	15,944,584
Refunding Series 1997	3.80-5.75%	1997	2015	52,975,000
Refunding Series 1999	4.45-5.00%	1999	2009	3,205,000
Refunding Series 2001	4.375-5.00%	2001	2027	14,155,000
Refunding Series 2002	2.50-5.25%	2002	2028	155,115,000
Refunding Series 2003A	3.00-5.00%	2003	2012	22,255,000
Refunding Series 2003B	4.00-5.25%	2003	2018	65,850,000
Refunding Series 2004A	3.00-5.25%	2004	2024	118,035,000
Refunding Series 2005A	5.00%	2005	2022	69,845,000
Criminal Justice Center Series 2004	3.00-5.00%	2004	2023	63,515,000
GO Revenue Refunding 2002	5.00-5.86%	2002	2028	62,622,045
				<u>653,826,629</u>
<u>Flood Control Bonds</u>				
Refunding Series 1993 - CAB	5.40-5.60%	1993	2011	6,474,985
Refunding Series 2002	3.00-5.50%	2002	2014	9,985,000
Refunding Series 2003A	3.00-6.00%	2003	2015	22,400,000
Refunding Series 2003B	5.00-5.25%	2003	2023	191,765,000
Refunding Series 2004A	3.00-5.25%	2004	2024	135,630,000
				<u>366,254,985</u>

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	Interest Rates (%)	Date Series		Balance February 28, 2006
		Issued	Matures	
<u>Tax & Subordinate Lien Revenue Bonds</u>				
Refunding Series 1998	5.45-5.80%	1998	2012	33,925,000
Refunding Series 2004A	4.00-5.00%	2004	2012	3,680,000
Refunding Series 2004B	5.00%	2004	2032	176,800,000
				<u>214,405,000</u>
<u>Certificates of Obligation</u>				
Series 1998	3.60-4.50%	1998	2023	32,530,000
Series 2001	4.375-5.125%	2001	2027	17,520,000
GO Revenue CO Series 2002	5.00-5.50%	2002	2012	18,840,000
				<u>68,890,000</u>
TOTAL				<u><u>1,849,976,576</u></u>

The Toll Road Project has been financed with a combination of unlimited tax and senior lien revenue bonds, subordinate lien revenue bonds and commercial paper. The proceeds from such bonds, including the interest earned, are being used to finance the construction and the related debt service.

Outstanding business-type bonded debt at February 28, 2006 follows:

	Interest Rates (%)	Date Series		Balance February 28, 2006
		Issued	Matures	
<u>Senior Lien Revenue Bonds</u>				
Refunding Series 1997	3.85-5.125%	1997	2024	\$ 63,245,000
Refunding Series 2002	5.00-5.375%	2002	2032	392,145,000
Refunding Series 2004A	4.50-5.00%	2004	2033	168,715,000
Refunding Series 2004B	2.50-5.00%	2004	2021	462,805,000
Refunding Series 2005	4.50-5.25%	2005	2030	207,765,000
				<u>1,294,675,000</u>
<u>Unlimited Tax and Subordinate Lien Bonds</u>				
Refunding Series 1991 - CAB	6.95-7.25%	1991	2008	2,220,000
Refunding Series 1992A - CAB	5.80-6.80%	1992	2008	4,570,000
Refunding Series 1992B - CAB	5.80-6.80%	1992	2008	752,488
Refunding Series 1994A	6.50-8.00%	1994	2013	59,925,000
Refunding Series 1994A - CAB	5.70-6.25%	1994	2007	7,359,310
Refunding Series 1995A - CAB	5.80-6.05%	1995	2012	500,000
Refunding Series 1997	5.00-5.125%	1997	2024	150,395,000
Refunding Series 1997 - CAB	3.90-5.25%	1997	2013	1,200,000
Refunding Series 2001	6.00%	2001	2014	120,740,000
Refunding Series 2002	4.00-5.25%	2002	2015	42,260,000
Refunding Series 2003	3.50-5.00%	2003	2033	321,500,000
				<u>711,421,798</u>
TOTAL				<u><u>2,006,096,798</u></u>

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Annual debt service requirements to maturity as of February 28, 2006 are as follows:

Governmental Activities					
Fiscal year	Principal	Capital	Principal	Interest	Total
	At 2/28/2006	Appreciation	Value		
	Bonds	Bonds	At Maturity		
2007	\$ 70,190,620	\$ 7,176,232	\$ 77,366,852	\$ 93,878,121	\$ 171,244,973
2008	64,397,614	12,781,938	77,179,552	98,966,247	176,145,799
2009	69,576,286	7,001,814	76,578,100	90,181,688	166,759,788
2010	75,342,482	4,483,011	79,825,493	84,256,809	164,082,302
2011	81,053,921	1,589,903	82,643,824	76,441,283	159,085,107
2012-2016	384,482,323	25,538,540	410,020,863	303,927,718	713,948,581
2017-2021	454,741,206	17,149,812	471,891,018	212,964,999	684,856,017
2022-2026	501,817,388	3,228,384	505,045,772	86,063,263	591,109,035
2027-2031	106,049,736	941,717	106,991,453	15,745,969	122,737,422
2032-2036	42,325,000	-	42,325,000	1,426,597	43,751,597
	<u>\$ 1,849,976,576</u>	<u>\$ 79,891,351</u>	<u>\$ 1,929,867,927</u>	<u>\$ 1,063,852,694</u>	<u>\$ 2,993,720,621</u>

Business-Type Activities					
Fiscal year	Principal	Capital	Principal	Interest	Total
	At 2/28/2006	Appreciation	Value		
	Bonds	Bonds	At Maturity		
2007	\$ 27,812,906	\$ 30,812,359	\$ 58,625,265	\$ 137,532,559	\$ 196,157,824
2008	29,068,227	26,081,295	55,149,522	133,094,858	188,244,380
2009	36,255,665	19,052,523	55,308,188	127,385,471	182,693,659
2010	68,750,000	3,901,842	72,651,842	107,315,723	179,967,565
2011	76,885,000	3,157,987	80,042,987	103,192,944	183,235,931
2012-2016	469,445,000	5,456,424	474,901,424	415,190,059	890,091,483
2017-2021	438,045,000	-	438,045,000	273,114,947	711,159,947
2022-2026	267,185,000	-	267,185,000	179,394,129	446,579,129
2027-2031	249,920,000	-	249,920,000	120,606,560	370,526,560
2032-2036	342,730,000	-	342,730,000	46,695,382	389,425,382
	<u>\$ 2,006,096,798</u>	<u>\$ 88,462,430</u>	<u>\$ 2,094,559,228</u>	<u>\$ 1,643,522,632</u>	<u>\$ 3,738,081,860</u>

SIGNIFICANT DEBT COVENANTS

The Senior Lien Revenue Bonds are payable from the revenues of the Toll Roads. The Tax Bonds are secured by and payable from a pledge of the County's unlimited ad valorem tax and also are secured by a pledge of and lien on the revenues of the Toll Roads, subordinate to the lien of the Senior Lien Revenue Bonds. The County has covenanted to assess a maintenance tax to pay project expenses if revenues, after paying debt service, are insufficient. The County also has covenanted to collect tolls to produce revenues at the beginning of the third fiscal year following completion of the Toll Roads equal to at least 1.25 times the debt service requirements on the Senior Lien Revenue Bonds. The revenue coverage requirement became effective with the completion of the project during fiscal year 1994. The Toll Road Project's revenue coverage ratio for fiscal year 2006 was 4.68.

B. COMMERCIAL PAPER

In addition to the outstanding bonded debt of the County, the Commissioners Court has established a general obligation commercial paper program secured by ad valorem taxes for the purpose of financing various short-term assets and temporary construction financing for certain long-term capital assets. The commercial paper program consists of six series totaling \$1.0 billion payable from ad valorem taxes levied and Toll Road revenues. As of February 28, 2006, the County has

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outstanding, \$346.9 million of commercial paper. Commissioners Court, by policy, limits the period allowed for a commercial paper project not to exceed three years. During the length of time the paper is outstanding, the paper may have a maturity term of 1 – 270 days.

The County enters into non-cancelable agreements with credit facilities to provide a line of credit that will act as assurance to the purchaser of the commercial paper, that funds will be available to redeem the paper upon demand and that the County can rollover the commercial paper. For Commercial Paper Series B & C, the County has a credit agreement with the Bank of Nova Scotia and Lloyds TSB Bank plc, which expires August 23, 2006. The County anticipates a renewal of the credit agreement prior to the expiration date. For this line of credit, the County is assessed a fee of .09% per annum on the aggregate amount of commitment. For Commercial Paper Series A-1 & D, the County has a credit agreement with the Bank of Nova Scotia, which expires August 23, 2006. The County anticipates a renewal of the credit agreement prior to the expiration date. For this line of credit the County is assessed a fee of .09% per annum on the aggregate amount of commitment. If converted to a term loan, the principal amount for Series B and C is to be paid in equal annual installments, commencing on the date which is one year following the date of the advance of such unpaid principal and ending on the earlier of three years from the date of conversion or Maximum Maturity Date (as defined in The Order). If converted to a term loan, the principal amount outstanding for Series A-1 and D is to be repaid in equal annual installments commencing on the date which is one year following the date of the advance of such unpaid principal amount and ending on the earlier of five years from the date of conversion or the Maximum Maturity Date (as defined in The Order). Interest is payable quarterly in arrears, at a rate per annum equal to the adjusted term rate, provided that the principal amount of any term loan not paid when due shall bear interest at a rate per annum equal to the lesser of (A) the default rate (fluctuating rate of per annum interest equal to the greater of (i) the base rate plus 2.00% or (ii) the federal funds rate plus 2.00%) and (B) the highest lawful rate.

COMMERCIAL PAPER – FLOOD CONTROL

On August 21, 2001, Commissioners Court authorized a \$200,000,000 commercial paper program designated as the Harris County Flood Control District Contract Tax Commercial Paper Notes, Series F (“Series F Notes”) to fund projects identified in an agreement between the County and the Flood Control District (“Flood Contract”) and refinance, refund, and renew the notes themselves and fund issuance costs. The estimated cost of projects anticipated under the Flood Contract is \$718,830,000.

The terms of the Series F Notes require the notes to be issued with a maturity of 270 days or less and allow for interest up to the maximum rate allowable under Chapter 1204 of the Texas Government Code, currently 15%. The notes will be dated as of the date of issuance with a maximum maturity date of September 1, 2031. Payment of the principal and interest on the Series F Notes and all expenditures associated with the issuing and paying agent, the dealer and the credit provider is secured by a pledge and lien on the payments to be received by the Flood Control District from the County under the Flood Contract. Under the Flood Contract, the Flood Control District pays all costs relating to the County flood control projects and issues notes to provide the funding for such projects.

The County’s commitment under the Flood Contract is the payment to the Flood Control District of amounts necessary for the principal and/or interest due; the fees and expenditures of the issuing and

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paying agent, the dealer, and the credit provider; amounts related to any special or contingency funds or accounts for the notes; and any amounts to restore deficiencies in such funds or accounts. The County's payment obligation is secured by a levy and pledge of a portion of the County's ad valorem taxes which extends until all obligations under the Series F Notes, including any obligations to refund the notes, are no longer outstanding. During the term of the Flood Contract, the County is required to levy taxes computed at a tax rate sufficient to provide the funds required to make the annual payments and to provide and maintain a sinking fund adequate for such amounts as they become due. Commissioners Court issued an order whereby the sinking fund may never be less than 2% of the County's outstanding indebtedness under the Flood Contract at the time of the tax levy. In setting the tax rate, the County may consider all sources of funding lawfully available or that are to be available including the credit agreement entered into for the Series F Notes, discussed below. Because of the allocation of other available funds sufficient to satisfy the annual amount due under the Flood Contract, the County has not been required to set a tax rate related to the 2% limitation. Based on the County's outstanding indebtedness as of February 28, 2006 (exclusive of Flood Control District debt), this amount required under the 2% limitation is estimated to be \$1,568,500.

Under a dealer agreement between the Flood Control District and Morgan Stanley & Co. Incorporated, the Series F Notes are issued in denominations of a minimum of \$100,000 and integral multiples of \$1,000 thereafter and may bear interest or sold at a discount. The dealer agreement does not provide for extension, renewal, or automatic rollover of the notes upon maturity. In consideration for the services of the dealer, the Flood Control District is obligated to make quarterly payments equaling .05% of the daily outstanding principal amount of issued Series F Notes. The paying agent for the Series F Notes is Deutsche Bank for which it receives an annual administration fee of \$2,500 and per transaction fees ranging from \$10 to \$40.

The Series F Notes are also secured through an irrevocable, direct-pay, transferable letter of credit between the Flood Control District and the New York branch of Landesbank Hessen-Thüringen Girozentrale. The amount of the letter of credit totals \$214,794,521. This total includes the principal amount of the notes (\$200,000,000) and interest of \$14,794,521 calculated as 270 days at an assumed per annum rate of 10% and a 365-day year. The term of the letter of credit expires August 1, 2007 and is subject to extension of up to 364 days per request. The letter of credit also provides for the establishment of loans with maturity dates ranging from three to four years depending on the earliest of several anniversary dates. The interest rate on such loans may not exceed the maximum rate allowed by law, currently 15%. The principal portion of the loans is repayable in equal quarterly installments and the interest quarterly. Under the terms of the letter of credit, the Flood Control District is charged a quarterly fee, based on the daily average amount of the outstanding draws against the letter of credit, presently at .12%. This fee is dependent on the County's parity debt rating at the time. In addition, there are fixed transactional fees ranging from \$12 to \$1,000.

COMMERCIAL PAPER – TOLL ROAD

In addition to the outstanding long-term debt of the Toll Road Authority ("Toll Road"), the Commissioners Court has established a commercial paper program secured by and payable from Toll Road revenues. The commercial paper program consists of Harris County Toll Road Senior Lien Revenue Notes, Series E ("Notes") in an aggregate principal amount not to exceed \$200 million outstanding at any one time. As of February 28, 2006, the Toll Road has no outstanding commercial paper.

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The purpose of the Series E Notes is to provide funding for costs of acquiring, constructing, operating and maintaining, and improving Toll Road Project components, as well as to fund reserves, pay interest during construction, refinance, refund, and renew the notes themselves, and fund issuance costs.

The Notes will be offered at par only, will mature in not more than 270 days from the date of issue, and will pay par plus interest at maturity. Interest on the Notes is payable on an actual/365 or 366-day basis. The interest on the Notes may not exceed the lesser of 10% per annum or the maximum rate allowed by law, currently 15%. A minimum purchase of \$100,000 aggregate principal amount and integral multiples of \$1,000 in excess thereof is required.

The Notes will have a maximum maturity date of August 15, 2031 and no Series E Note shall (i) mature after the maximum maturity date, (ii) have a term in excess of 270 days, (iii) have a term beyond the third business day prior to the scheduled expiration date for the credit agreement relating to such Series E Note or (iv) be issued at any time that a "no issuance notice" has been issued by the credit provider pursuant to the credit agreement which provides that such Series E Note would not be entitled to the security provided by the credit agreement.

The Toll Road entered into a Revolving Credit Agreement as of October 1, 2001 with Dexia Credit Local, whereby Dexia has agreed to advance up to \$200 million to the Toll Road to pay the principal of any or all maturing Series E Notes as necessary for a period through October 27, 2007, which is the date of expiration. For this agreement, the County will be assessed a fee of .12% per annum on the aggregate amount of the commitment. The Lender agrees that it will on the first to occur of the Revolving Credit Maturity Date or the 181st day following the date on which any Revolving Credit Loan is made, on the terms and conditions set forth in the Agreement, make a term loan to the County in an amount equal to the outstanding unpaid principal balance of the Lender's Loan Note. The principal amount outstanding for Series E shall be paid in six equal semi-annual installments commencing on the date which is the first business day after the one hundred eightieth day following the day on which such term loan was made so that the term loan is repaid in full after three years from the date the term loan is made. Interest is payable monthly during the Term Loan Period at a rate equal to the base rate (which is the higher of (i) the Prime Rate or (ii) the Federal Funds Rate plus one-half of one percent) plus two percent per annum.

CHANGES IN COMMERCIAL PAPER

The following is a schedule of changes in commercial paper for the year ended February 28, 2006:

	Balance Outstanding March 1, 2005	Issued	Retired/ Refunded	Balance Outstanding February 28, 2006	Amount Due Within One Year
<u>Governmental Activities</u>					
Commercial Paper A, A-1, B, C	\$ 96,453,000	\$ 107,888,000	\$ (335,000)	\$ 204,006,000	\$ -
Commercial Paper D, D-1	28,665,000	35,849,000	-	64,514,000	-
Commercial Paper - Flood Control	26,580,000	51,845,000	-	78,425,000	7,129,545
	<u>\$ 151,698,000</u>	<u>\$ 195,582,000</u>	<u>\$ (335,000)</u>	<u>\$ 346,945,000</u>	<u>\$ 7,129,545</u>
<u>Business-type Activities</u>					
Commercial Paper - Toll Road	\$ 39,960,000	\$ 85,040,000	\$ (125,000,000)	\$ -	\$ -

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DEBT SERVICE TO MATURITY - COMMERCIAL PAPER

Expected debt service requirements for the various Commercial Paper issuances are shown below. These requirements assume that as of February 28, 2006 the County had drawn down the outstanding principal balance on the line of credit and subsequently executed term loans with the banks for a principal balance of \$346,945,000 at the average rate for the quarter ending February 28, 2006 by series and reflect the effects of any refundings.

<u>Fiscal year</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,129,545	\$ 36,989,481	\$ 44,119,026
2008	102,236,580	39,190,284	141,426,864
2009	102,236,580	23,964,707	126,201,287
2010	87,977,495	9,010,202	96,987,697
2011	23,682,400	4,918,193	28,600,593
2012	23,682,400	1,639,398	25,321,798
	<u>\$ 346,945,000</u>	<u>\$ 115,712,265</u>	<u>\$ 462,657,265</u>

C. COMPONENT UNITS' DEBT

The County has no obligation to assume any liability for the bonds issued by any of the discretely presented component units.

The total debt of the Harris County Hospital District was \$135,778,000 as of February 28, 2006 which comprises 89% of the total long-term debt of the County's discretely presented component units. These bonds are secured by a lien on the pledged revenues of the Harris County Hospital District and certain funds pursuant to the bond order.

The Harris County Hospital District also has defeased bonds, in the amount of \$17,278,000 whereby the proceeds are held as irrevocable deposits of funds sufficient with trustees to pay the principal and interest of such bonds through their maturity. Accordingly, these trustee funds and the related defeased indebtedness are excluded from the Harris County Hospital District's balance sheet as of February 28, 2006.

The total debt of the MHMRA was \$14,046,570, of which \$12,574,497, represents debt of the MHMRA primary government (comprised of \$10,394,929 bonded debt and notes payable, \$155,166 capital leases and \$2,024,402 compensated absences), as of August 31, 2005 which comprises 9% of the total debt of all the County's discretely presented component units.

The total debt of The Children's Assessment Center Foundation was \$2,306,688 as of February 28, 2006 which comprises 2% of the total long-term debt of the County's discretely presented component units.

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Debt service requirements for component units' debt are as follows:

<u>Fiscal year</u>	<u>Hospital District</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 8,120,000	\$ 8,518,320	\$ 16,638,320
2008	8,784,000	7,964,060	16,748,060
2009	8,829,000	7,367,990	16,196,990
2010	10,947,000	6,727,520	17,674,520
2011	16,020,000	5,922,400	21,942,400
Thereafter	83,078,000	14,400,550	97,478,550
	<u>\$ 135,778,000</u>	<u>\$ 50,900,840</u>	<u>\$ 186,678,840</u>

<u>Fiscal year</u>	<u>MHMRA</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,072,395	\$ 534,339	\$ 1,606,734
2007	1,116,191	482,953	1,599,144
2008	1,167,002	429,292	1,596,294
2009	1,224,947	373,061	1,598,008
2010	1,280,151	313,957	1,594,108
2011-2015	4,267,819	740,707	5,008,526
2016-2020	266,424	2,397	268,821
	<u>\$ 10,394,929</u>	<u>\$ 2,876,706</u>	<u>\$ 13,271,635</u>

<u>Fiscal year</u>	<u>The Children's Assessment Center Foundation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 44,694	\$ 154,107	\$ 198,801
2008	47,801	151,000	198,801
2009	51,124	147,676	198,800
2010	54,678	144,122	198,800
2011	58,480	140,320	198,800
Thereafter	2,049,911	353,537	2,403,448
	<u>\$ 2,306,688</u>	<u>\$ 1,090,762</u>	<u>\$ 3,397,450</u>

D. COMPONENT UNITS' CONDUIT DEBT OBLIGATIONS

Harris County Industrial Development Corporation, Harris County Housing Finance Corporation, Harris County Health Facilities Development Corporation and Harris County Cultural Education Facilities Finance Corporation have issued bonds to provide financial assistance to private and public sector entities engaged in activities that are deemed to be in the public interest. These bonds are limited obligations of the issuing entities payable solely from the proceeds of the underlying financing agreements, and in the opinion of legal counsel, do not represent indebtedness or liability to the issuing entity, Harris County, the State of Texas, or any political subdivision; therefore, the bonds are not reported as liabilities in the accompanying financial statements. The Harris County Health Facilities Development Corporation and Harris County Cultural Education Facilities Finance Corporation have no other financial activity that would materially affect the County's financial statements, and are not required to issue separate audited financial statements, and as a result are not

HARRIS COUNTY, TEXAS
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included in the Reporting Entity disclosure within the accompanying notes to the financial statements. A summary of the debt issued by each entity follows.

Harris County Industrial Development Corporation

The Corporation has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from the payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Corporation, nor the County, nor any political subdivision thereof is obligated in any manner for repayment of the bonds.

As of August 31, 2005, there were seventy-seven (77) series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable at August 31, 2005 for the bonds issued could not be determined; however, their original issue amounts totaled approximately \$735,705,443.

Harris County Housing Finance Corporation

As of December 31, 2005, there were forty-seven (47) series of bonds outstanding with an aggregate principal payable of \$365,093,626. These bonds have been issued by the Housing Finance Corporation to provide financing for the purpose of purchasing single family home mortgages and multifamily home projects for low and moderate income owners/residents, and will be repaid from sources defined in the various underlying financing agreements between the Housing Finance Corporation and the entities for whose benefit the bonds were issued.

Harris County Health Facilities Development Corporation

The corporation issues bonds if there is a public benefit or public purpose that is necessary or convenient for health care, research or education. As of February 28, 2006 there were forty (40) series of bonds outstanding with an aggregate principal payable of \$4,612,927,000. The bonds will be repaid from sources defined in the various underlying financing agreements between the Health Facilities Development Corporation and the entities for whose benefit the bonds were issued.

Harris County Cultural Education Facilities Finance Corporation

As of February 28, 2006 there were nine (9) series of Bonds outstanding with an aggregate principal payable of \$87,257,574. The bonds were issued for the purpose of defraying expansion costs, construction of a parking facility for the Houston Museum of Natural Science, the construction of Space Center Houston facility, Houston Livestock Show and Rodeo projects, and the Hobby Center for the Performing Arts. The bonds will be repaid from payments required to be made under loan agreements between the issuing entity and the aforementioned parties.

E. UNISSUED AUTHORIZED BONDS

Capital projects are funded primarily by the issuance of bonded debt. The County has received voter approval for the issuance of bonds to maintain an ongoing capital improvement program.

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The following is the summary of authorized, issued and unissued bonds:

<u>Description</u>	Year of Voter Authorization	Amount Authorized	Issued as of 2/28/2006	Authorized but Unissued 2/28/2006
(amounts in millions)				
<u>Ad Valorem Tax Bonds</u>				
Toll Road	1983	\$ 900.0	\$ 882.3	\$ 17.7
Flood Control	1987	250.0	155.0	95.0
Fire-Fighting Facilities	1989	5.0	5.0	-
Roads	1997	356.0	356.0	-
Civil Justice Center	1999	119.0	95.0	24.0
Roads	2001	475.0	123.5	351.5
Parks	2001	60.0	22.8	37.2
		<u>\$ 2,165.0</u>	<u>\$ 1,639.6</u>	<u>\$ 525.4</u>
Total Ad Valorem Tax Bonds				

F. REFUNDINGS

On April 14, 2005, the County issued and settled \$69,845,000 Permanent Improvement Refunding Bonds, Series 2005A to refund and defease a portion of the County's outstanding long-term limited tax-supported debt and to pay costs incurred in connection with the issuance of the bonds. The annual interest rate is at 5%. The issuance had a premium of \$5,947,476. Interest accrues semiannually and the bonds mature in fiscal year 2023. The refunding resulted in a decrease in the cash flow requirements of \$2,884,361 and an economic gain of \$2,138,427.

On June 23, 2005, the County issued and settled \$34,420,000 Unlimited Tax Road Refunding Bonds, Series 2005A to refund and defease a portion of the County's outstanding long-term unlimited tax-supported road debt and to pay cost of issuance and refunding. The annual interest rate is at 5%. The issuance had a premium of \$3,011,792. Interest accrues semiannually and the bonds mature in fiscal year 2023. The refund resulted in a decrease in the cash flow requirements of \$1,327,321 and an economic gain of \$1,151,129.

On October 13, 2005, the County issued \$207,765,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2005A to refund all or a portion of the County's outstanding Toll Road Senior Lien Revenue Commercial Paper Notes, Series E, to provide for the capitalized interest on the bonds, to satisfy the increase in Debt Service Reserve Fund requirements and to pay costs incurred in connection with the issuance of the bonds. The annual interest rates range from 4.5% to 5.25%. The issuance had a premium of \$8,827,543 and a discount of \$217,715. Interest accrues semiannually and the bonds mature in fiscal year 2035. There was no economic gain or loss due to the refunding of commercial paper.

G. DEFEASANCE OF DEBT

In prior years, the County has defeased certain property tax bonds, revenue bonds, certificates of obligation and Toll Road revenue bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. The trust account assets and the liability for the defeased bonds are not included in the County's basic financial statements.

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As of February 28, 2006, the outstanding principal balance of these defeased bonds was as follows:

<u>Property Tax Bonds:</u>		
Road Series 1995	\$ 57,100,000	
Road Series 1996	48,990,000	
Road Series 2001	<u>34,085,000</u>	
Total Road		\$ 140,175,000
Certificates of Obligation Series 1994	51,045,000	
Permanent Improvement Series 1994	4,750,000	
Criminal Justice Series 1996	75,890,000	
Permanent Improvement Series 1999	13,080,000	
Permanent Improvement Series 2001	7,315,000	
Certificates of Obligation Series 2002	144,150,000	
Permanent Improvement Series 2003B	<u>10,380,000</u>	
Total Permanent Improvement		306,610,000
<u>Revenue Bonds:</u>		
Hotel Occupancy		12,770,000
<u>Certificates of Obligation:</u>		
Certificates of Obligation Series 1998	27,150,000	
Certificates of Obligation Series 2001	12,830,000	
Certificates of Obligation Series 2002	<u>14,220,000</u>	
Total General Obligation		54,200,000
<u>Toll Road Bonds:</u>		
Revenue Series 1992A	288,635,000	
Revenue Series 1992B	53,770,000	
Revenue Series 1994	503,005,000	
Revenue Series 1994A	<u>66,925,000</u>	
Total Senior Lien Revenue Bonds		912,335,000
Tax Series 1991	125,745,000	
Tax Series 1992A	43,180,000	
Tax Series 1992B	11,822,000	
Tax Series 1994A	141,520,000	
Tax Series 1994B-H	<u>284,300,000</u>	
Total Tax Bonds		<u>606,567,000</u>
Total Defeased Bonds		<u><u>\$ 2,032,657,000</u></u>

H. SUBSEQUENT BOND ISSUANCES

On June 15, 2006, the County issued \$295,000,000 in Tax Anticipation Notes, Series 2006. The tax anticipation notes were issued to fund the County's cumulative cash flow deficit for the fiscal year beginning March 1, 2006 and ending February 28, 2007, and will be repaid from fiscal year 2007 tax revenues. The tax anticipation notes, which mature on February 28, 2007, were issued at an annual interest rate of 4.50%.

On July 12, 2006, the County issued and settled \$28,090,000 Unlimited Tax Road Forward Refunding Bonds, Series 2006A to refund and defease a portion of the County's outstanding Road

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and Refunding Bonds, Series 1996. The annual interest rate is at 5%. The issuance had a premium of \$1,409,755. Interest accrues semiannually and the bonds mature in fiscal year 2013.

I. ARBITRAGE REBATE LIABILITY

The Tax Reform Act of 1986 established regulations for the rebate to the federal government of arbitrage earnings on certain local government bonds issued after December 31, 1985, and all local governmental bonds issued after August 31, 1986. Issuing governments must calculate any rebate due and remit the amount due at least every five years. As of February 28, 2006 there were no estimated liabilities for arbitrage rebate on governmental or enterprise debt. The Debt Service Funds have typically been used to liquidate arbitrage liabilities in previous years.

J. INTEREST RATE SWAP

The County entered an Interest Rate Swap with Goldman Sachs Capital Markets, L.P., Relating to the Tax and Subordinate Lien Revenue Refunding Bonds, Series 2004A and 2004B (Trade Date: August 16, 2004; Effective Date: August 18, 2004; Termination Date: August 15, 2032).

Objective of the Interest Rate Swap:

The intent of the swap was to lower the cost of funds relating to the County's currently outstanding Tax and Subordinate Lien Revenue Refunding Bonds, Series 2004A and 2004B and to provide a \$12,000,000 up front payment on the effective date.

Terms:

Based on the swap agreement, the County pays interest at a variable rate based on the Bond Market Association Municipal Swap Index (BMA). In return, the County receives:

- 1) A variable rate based on the following formula:

The lesser of ((a) or (b) below):

- (a) the greater of ((i) or (ii) below):

(i) 1-Month United States Dollar (USD) – London Interbank Offered Rate (LIBOR)*65.00%;

OR

(ii) (1-Month USD-LIBOR*56.00%) plus 0.44% interest;

OR

- (b) 1-Month USD-LIBOR

And

- 2) A fixed rate equal to 0.155%.

All payments are netted and paid on a semi-annual basis each February 15 and August 15, commencing on February 15, 2005. As further defined in the confirmation to the swap agreement, the County is subject to an "Annual Counterparty Ceiling" which limits the maximum payment, inclusive of collateral, made by the County in any fiscal year to \$50,000,000. Subject to cash settlement, the County has the right to terminate the agreement, in whole or in part, on the effective date and on any business day thereafter. The swap is scheduled to terminate on August 15, 2032.

Fair Value:

Interest rates have declined and tax-exempt and taxable ratios have remained high since execution of

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the swap, therefore if it were to be terminated as of February 28, 2006, the swap would have a negative fair market value of \$15,452,523. Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using information obtained from generally recognized sources with respect to quotations, reporting of specific transactions and market conditions and based on accepted industry standards and methodologies.

Credit Risk:

As of February 28, 2006, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change, and the fair value of the swap becomes positive the County would be exposed to credit risk in the amount of the derivative's fair value. The counterparty has maintained their ratings since inception of Aa3, A+ and AA- by Moody's Investors Services, Standard & Poor's and Fitch Ratings, respectively.

Basis Risk:

As the variable BMA rate that the County pays under the agreement differs from the variable LIBOR rate received from the counterparty, the swap exposes the County to basis risk. The maximum exposure for terminating the swap is capped per the "Counterparty Payment Ceiling" at \$50,000,000 in any year.

K. NOTES PAYABLE

In May 2001 the Harris County Sports & Convention Corporation ("Corporation") and RCM Financial Services, L.P. ("RCM"), a related entity of the NFL Club, entered into a loan agreement whereby RCM provides funding for costs to be incurred by the Corporation and the Harris County/Houston Sports Authority ("Sports Authority") for the purchase of land to construct additional parking lots near the Complex. Under the terms of the agreement, RCM will provide up to \$25,000,000 for these purchases, of which \$19,105,000 is available to the Corporation and \$5,895,000 is available to the Sports Authority.

The Note is secured by Pledged Revenues consisting of certain Corporation revenues and Residual Revenues of the Sports Authority. The Note is further secured by a deed of trust on the parking lot property and the parking lot improvements. The pledge of certain Corporation revenues is limited to a maximum of \$2,500,000 per year. The Sports Authority will be obligated to repay the Corporation's loan with revenues from such sources as hotel occupancy taxes and parking fees under terms of an agreement entered into at the time the RCM Loan agreement was executed.

In November 2003 the Corporation, the Sports Authority and RCM Financial Services, L.P. executed the First Amendment to the Loan Agreement and Note. Under the terms of the Amendment, the interest rate on the Note was reduced from 9.5% to 7.0% on each advance from the date of such advance until the Stated Maturity, August 1, 2011. Any principal not repaid at the Stated Maturity shall thereafter continue to bear interest at the fixed rate of 9.5% per annum. The Sports Authority's obligation to the Corporation under the reimbursement agreement, however, shall remain accruing interest at 7.0% per annum.

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As of February 28, 2006, the Corporation borrowed funds under the loan agreement to purchase \$19,105,000 of land which was donated to the County. The Corporation has recorded this obligation as a note payable which is due in 2011 with an interest rate of 7.0% compounding semi-annually, with an installment payment of \$25,000,000 in accrued interest and principal due on August 1, 2006, or 60 months after the first draw date. Under terms of the agreement, the installment payment is applied first to accrued interest and second to principal. The Corporation has projected that as of August 1, 2006, accrued interest will total \$6,973,366, which will leave \$18,026,633 to apply towards principal.

Failure to make payment of any amount due and owing under the documents is considered an event of default. The agreement outlines certain remedies that RCM has in the event of default, including the enforcing of payment of up to \$2,500,000 of revenues pledged by the Corporation and the enforcement of the lien placed on the property purchased with the proceeds of the loan.

12. COMPENSATED ABSENCES PAYABLE

Changes in long-term compensated absences for the year ended February 28, 2006 were as follows:

	Balance Outstanding March 1, 2005	Earned	Taken/ Paid	Balance Outstanding February 28, 2006	Amount Due Within One Year
Governmental Activities	\$ 22,693,331	\$ 21,361,149	\$ (18,154,665)	\$ 25,899,815	\$ 20,201,857
Business-type Activities	594,485	551,551	(475,588)	670,448	522,949
Total	<u>\$ 23,287,816</u>	<u>\$ 21,912,700</u>	<u>\$ (18,630,253)</u>	<u>\$ 26,570,263</u>	<u>\$ 20,724,806</u>

13. LANDFILL POSTCLOSURE CARE COST

Harris County has operated three permitted and/or licensed landfills which were closed prior to October 1993 according to the rules and regulations at the time. As noted in Title 30 TAC Chapter 330, Subchapter J, no post closure care is required. Rules governing what can be done on closed landfills are found at Title 30 TAC 330.255 Post-Closure Land Use. Two sites are no longer owned by Harris County. Although inspections are not required of the remaining site, periodic inspections have been done for various purposes such as storm water quality and overgrowth. The remaining site requires annual maintenance estimated at \$50,000 and remediation estimated to cost \$3.8 million. This estimate is based on preliminary engineering reports from the design phase of the remediation. The liability has been recognized on the County's government-wide financial statements. A fourth site, a former unpermitted landfill, now known as Allison R. Peirce, Jr. Wetlands Nature Sanctuary was acquired by Harris County to insure the site is appropriately remediated. The County is receiving Supplemental Environmental Project (SEP) funds to assist in this project. A fifth site is a Harris County Flood Control proposed detention basin site. When construction began several years ago on recently acquired land, an unpermitted landfill was discovered. Harris County Flood Control is planning to submit this site to the Texas Commission on Environmental Quality for SEP funding of remediation. The estimate for remediation has not been completed therefore no liability is recorded at this time.

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14. RETIREMENT PLAN

Plan Description

Harris County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 553 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCDRS since 1991, the County has had the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective January 1, 1995, the County adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period which began January 1, 1995 using the entry age actuarial cost method. Monthly contributions by the County are based on the covered payroll and the employer contribution rate in effect. The contribution rate for 2006 is 9.81%. The contribution rates for 2005 and 2004 were 10.05 % and 10.53%, respectively.

The plan provisions are adopted by Commissioners Court, within the options available in the state statutes governing TCDRS ("TCDRS Act"). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest and employer-financed monetary credits. The level of these monetary credits is adopted by Commissioners Court, within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The County has elected the annually determined contribution rate ("ADCR") plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The County contributed using

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actuarially determined rate of 10.05% for the months of the calendar year in 2005, and 9.81% for the months of the calendar year in 2006.

The contribution rate payable by the employee members for 2005 and 2006 is the rate of 7% as adopted by Commissioners Court. The employee contribution rate and the employer contribution rate may be changed by Commissioners Court, within the options available in the TCDRS Act.

Annual Pension Cost

For the County's accounting year ending February 28, 2006, the annual pension cost for the TCDRS plan and the actual contributions for its employees were \$60,990,625.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*, parameters based on the actuarial valuations as of December 31, 2004 and December 31, 2005, the basis for determining the contribution rates for calendar years 2005 and 2006. The December 31, 2005 is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/03	12/31/04	12/31/05
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period in years	20	20	20
Asset Valuation Method	Long-term appreciation with adjustments	Long-term appreciation with adjustments	Long-term appreciation with adjustments
Actuarial Assumption			
Investment return (1)	8.00 %	8.00 %	8.00 %
Projected Salary Increases (1)	5.5 %	5.5 %	5.3 %
Inflation	3.5 %	3.5 %	3.5 %
Cost of Living Adjustments	0.0%	0.0%	0.0%
<small>(1) Includes inflation at the stated rate.</small>			

Trend Information			
Accounting Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2/28/06	\$ 60,990,625	100%	-
2/28/05	\$ 60,824,272	100%	-
2/29/04	\$ 56,659,405	100%	-

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Schedule of Funding			
Actuarial Valuation Date	12/31/03	12/31/04	12/31/05
Actuarial Value of Assets	\$1,640,964,686	\$1,789,864,440	\$1,950,248,224
Actuarial Accrued Liability (AAL)	\$1,848,669,873	\$2,005,039,645	\$2,157,877,524
Unfunded Actuarial Accrued Liability (UAAL)	\$ 207,705,187	\$ 215,175,205	\$ 207,629,300
Funded Ratio	88.76%	89.27%	90.38%
Annual Covered Payroll (Actuarial)	\$ 570,304,250	\$ 623,386,613	\$ 631,353,087
UAAL as Percentage of Covered Payroll	36.42%	34.52%	32.89%

15. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits described herein, the County provides certain retirement health care and life insurance benefits for retired employees. In accordance with the Personnel Regulations adopted by Commissioner's Court all County employees become eligible for these benefits after meeting the service and retirement age requirements of the County's retirement plan. These requirements, which were modified effective January 1, 1995, require 30 years of service, or 8 years of service and 60 years of age, or years of service plus age equal 75 or more. The County pays 100% of the cost of medical and life insurance coverage for retirees. The County recognizes expenditures for retirement benefits as paid, which during fiscal year 2006 totaled \$15,035,738. Presently, 2,618 retirees qualify for retirement benefits.

16. RISK MANAGEMENT

The County's risk-of-loss exposures include exposure to liability and accidental loss of real and personal property as well as human resources. County operations involve a variety of high risk activities including, but not limited to, law enforcement, cash collections, construction, and maintenance activities. The Office of Human Resources & Risk Management is responsible for identifying, evaluating, and managing risk in order to reduce the exposure from liability and accidental loss of property and human resources.

The County has established the Risk Management Internal Service Fund to account for risk management activity. Risk financing activities include the purchase of property insurance, professional liability insurance, and crime and fidelity coverage. Harris County is self-insured for general liability, vehicle liability, and liability from property damage claims. Such non-litigated claims are handled on a pay-as-you-go basis and are expensed as paid; due to immateriality, no liabilities are reported in the financial statements for such claims or for an estimate of any claims which may have been incurred but have not been reported. Any liability arising from operation of motorized equipment will be considered under the Texas Tort Claims Act.

The County is self-insured for workers' compensation claims and reimburses a third-party administrator who evaluates and pays claims in accordance with State statute. The County's workers' compensation self-insurance program provides medical and indemnity payments as required by law for job-related injuries. The County has insurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the policy for the fiscal year

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ended February 28, 2006 is \$850,000 per occurrence. The liability for outstanding losses includes an actuarially determined amount for incurred but not reported claims. Interfund premiums for workers' compensation are actuarially determined by claims expense experience and payroll history. During the past three fiscal years, there were no claims that exceeded the insurance coverage.

The Risk Management Internal Service Fund serves as a clearing account for the collection of group insurance premiums from all funds and premiums for dependents and optional coverage from employee payroll deductions. Contracted insurance providers receive disbursements from the fund based upon monthly enrollment and premium calculations. Departmental billings for premiums for property insurance, professional liability insurance, and crime and fidelity policies, as well as payments to the insurance carriers, are handled through the Risk Management Fund. Payments by the County for general, vehicle, and property damage liability claims, for which the County is self-insured, are made through the Risk Management Fund unless litigation is involved. The County Attorney's Office handles any claims involving litigation.

The Risk Management Fund is available to pay claims and administrative costs of the programs and to fund claim reserves. During fiscal year 2006, a total of \$9,705,143 was paid in benefits and administrative costs. As of February 28, 2006, claims liability, including an actuarial estimate of claims that have been incurred but not reported, totaled \$26,642,654.

The following is a summary of the changes in worker's compensation claims liability for the Risk Management Fund for the fiscal years 2006 and 2005:

	2006	2005
Claims liability, beginning of fiscal year	\$ 28,666,241	\$ 26,547,651
Incurred claims (including IBNRs)	3,957,898	8,285,347
Claim payments	(5,981,485)	(6,166,757)
Claims liability, end of fiscal year	\$ 26,642,654	\$ 28,666,241

The County currently provides medical, dental, vision, and basic life and disability insurance benefits to eligible employees and retirees. The County pays the full cost of employee and retiree coverage and 50% of the cost of dependent premiums. Retirees with less than 10 years of service pay a portion of their premium. The total obligation for health insurance benefits is limited to the monthly premiums payable during the year and is based upon the number of enrolled employees, retirees and dependents during the year. The disability insurance will pay up to 50% of an employee's salary for two years with an employee paid option to extend the benefits period to age 65 and increase the percentage to 60%.

For medical insurance benefits, the County is self-insured and contracts with Aetna to administer the program. Claims liability includes an estimated amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is based on past claim experience. The County has an excess coverage insurance policy that activates when claims reach 115% of expected claims in aggregate or individual claims in excess of \$500,000. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverages for each of the past two fiscal years.

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The following is a summary of the changes in medical insurance liability for the Insurance Trust Fund for the fiscal years 2006 and 2005:

	2006	2005
Claims liability, beginning of fiscal year	\$ 21,727,815	\$ -
Incurred claims (including IBNRs)	114,723,618	121,175,316
Claim payments	(118,082,189)	(99,447,501)
Claims liability, end of fiscal year	\$ 18,369,244	\$ 21,727,815

17. COMMITMENTS AND CONTINGENT LIABILITIES

LITIGATION

The County is involved in lawsuits and other claims in the ordinary course of operations. Such litigation includes lawsuits alleging personal injuries, discriminatory hiring and firing practices, claims from contractors for amounts under construction contracts, inverse condemnation claims, and various other liability claims. The outcome of most of these lawsuits and other claims are not presently determinable and the resolutions of these matters are not expected to have a material effect on the financial condition of the County. There are several civil cases that have resulted in settlements, consent decrees or are expected to have a financial impact on the County in subsequent fiscal years. Total liabilities of \$3,049,850 for judgments payable have been recorded in the governmental activities of the Government-Wide financial statements. An additional amount of \$6,970,000 is considered possible for payment in relation to other cases; accounting standards require that this amount be disclosed, but it is not recorded as a liability in the financial statements. In addition, the County had judgments payable relating to the Toll Road of \$12,723,000 recorded as a restricted liability.

OTHER

The County received significant financial assistance from numerous federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, any such disallowed claims, if any, will not have a material effect on any financial statements to the individual fund types included herein or on the overall financial position of the County as of February 28, 2006.

OPERATING LEASES

As of February 28, 2006, the County had several operating leases for office space. Such leases have terms from one to twenty years and are subject to renewal each year based upon the County's annual appropriation. As of February 28, 2006, the County's obligation for such annual rental payments, if the annual renewal option is exercised, is as follows:

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<u>Governmental Activities</u>	
<u>Fiscal year</u>	<u>Office Space</u>
2007	\$ 1,649,270
2008	206,819
2009	81,508
2010	81,508
2011	81,508
	<u>\$ 2,100,613</u>

CONSTRUCTION COMMITMENTS

The County is committed under various contracts in connection with the construction of County facilities, buildings, and roads of \$204,652,741. In addition, the County has construction commitments outstanding relating to the Toll Roads of approximately \$116,607,378.

18. REVENUE LEASES

OPERATING LEASES

The County is the lessor in several operating leases for certain land and office space. The land leases are for various park areas and expire over the next four years. The office space is in various County owned buildings and expire over the next five to twenty years. The following schedule provides an analysis of the County's investment in the property on the operating leases as of February 28, 2006:

	<u>Carrying Value</u>
Land	\$ 2,653,261
Buildings	821,665,481
Total Carrying Value	824,318,742
Less: Accumulated Depreciation	(66,879,660)
	<u>\$ 757,439,082</u>

The following is a schedule by years of minimum future rentals on non-cancelable operating leases as of February 28, 2006:

<u>Fiscal year</u>	
2007	\$ 2,000,814
2008	1,577,738
2009	1,225,288
2010	1,067,673
2011	899,614
2012-2016	2,051,246
2017-2021	548,315
2022-2026	55,203
2027-2031	32,961
2032-2036	27,993
2037-2041	27,993
2042-2046	27,993
2047-2051	27,993
2052-2056	5,132
Total minimum future rentals	<u>\$ 9,575,956</u>

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The total minimum future rentals amount above does not include contingent rentals which may be received under certain leases based on percentage of receipts. Contingent rentals amounted to \$1,178,998 in 2006.

DIRECT-FINANCING LEASES

The County leases certain County-owned property to others for use as office space. These leases are classified as direct-financing leases and expire at various intervals over the next 45 years.

The following are the components of the County's net investment in direct financing leases as of February 28, 2006:

Net minimum lease payments receivable	\$	318,300
Estimated residual values of lease property		-
		318,300
Less: Unearned income		(205,622)
Net investment in direct financing leases	\$	112,678

At February 28, 2006, minimum lease payments to be received are as follows:

<u>Fiscal year</u>		
2007	\$	9,000
2008		9,000
2009		9,000
2010		9,000
2011		9,000
2012-2016		45,000
2017-2021		45,000
2022-2026		45,000
2027-2031		45,000
2032-2036		41,700
2037-2041		12,000
2042-2046		12,000
2047-2051		12,000
2052-2056		12,000
2057-2058		3,600
Total minimum future rentals	\$	318,300

19. FUND BALANCE DESIGNATIONS

The unreserved-designated fund balances include amounts which have been internally designated to be set aside and are not considered to be available for immediate appropriation. At February 28, 2006, the County's unreserved-designated fund balances in the Governmental Funds are for capital projects and maintenance. The following is a detail by fund:

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Unreserved, designated for:	
Roads	\$ 49,469,395
Permanent Improvements	9,759,319
Reliant Park	1,222,376
Sports and Convention Corporation	343,204
Flood Control	<u>57,418,543</u>
Total unreserved, designated for capital projects	<u>\$ 118,212,837</u>

20. RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (“GASB 43”), establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The County will implement GASB 43 in fiscal year 2007.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section – an Amendment of NCGA Statement 1* (“GASB 44”), updates the statistical section requirements to include guidance for all types of state and local governments, improve the understandability, comparability, and usefulness in the statistical section of the CAFR, and assist users in assessing the state or local government’s economic condition. GASB 44 will be implemented by the County in fiscal year 2007.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (“GASB 45”), establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The County will implement GASB 45 in fiscal year 2008.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB 34* (“GASB 46”), clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. GASB 46 states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing legislation or if legal enforceability is reevaluated. Finally, GASB 46 requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The County will implement this statement in fiscal year 2007.

GASB Statement No. 47, *Accounting for Termination Benefits* (“GASB 47”), establishes accounting standards for termination benefits (voluntary and involuntary). GASB 47 will be implemented by the County in fiscal year 2007.

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21. RESTATEMENT

During fiscal year 2006, the beginning net assets for the government-wide statements was restated by \$320,847,410 for the effects of a previous overstatement of bond premiums net of amortization and the addition of prior year construction in progress additions that were not previously reported. These additions included Reliant Park assets, the Washburn Tunnel, the Baker Street Jail, and flood control joint participation projects with the Army Corps of Engineers. The General Fund beginning fund balance was decreased by \$1,168,190 as a result of reclassifying amounts held for others for custodial cash accounts. In addition, the Insurance Trust Fund beginning net assets were decreased by \$13,965,557. This decrease was to record the Incurred But Not Reported (IBNR) medical claims liability for fiscal year 2005; the County had accrued claims based on actual payments made after year end, whereas the actuarial study used 2 1/2 months of claims to estimate IBNR. A new agency fund was also established for escrowed funds relating to the Flood Control joint projects with the Army Corps of Engineers. Additionally, a \$12,000,000 reclassification in the capital projects fund was made to reflect the non current nature of interfund activity and restrict and reserve investments and fund balance, respectively.

	Governmental Net Assets
Net Assets as previously reported	\$ 9,544,874,458
Overstatement of bond premium, net of amortization	587,747
Change in general fund balance	(1,168,190)
Additional capital asset values	321,427,853
Restated Net Assets as of March 1, 2005	<u>\$ 9,865,721,868</u>

	General Fund Balance
Fund balance as previously reported	\$ 317,143,188
Reclass to payables for amounts held for others	(1,168,190)
Restated Fund Balance as of March 1, 2005	<u>\$ 315,974,998</u>

	Insurance Trust Net Assets
Net Assets as previously reported	\$ 16,690,975
Accrual of Incurred But Not Reported liability	(13,965,557)
Restated Net Assets as of March 1, 2005	<u>\$ 2,725,418</u>

In addition to the changes to beginning fund balance and net assets as discussed above, the following amounts were restated to reflect activity for fiscal year 2006 related to the above items:

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	Governmental Activities column		Totals column	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	<u>Statement of Net Assets</u>			
Restricted investments	\$ 53,459,034	\$ 65,459,034	\$ 714,248,988	\$ 726,248,988
Land and construction in progress	4,124,734,075	4,155,508,474	4,544,150,435	4,574,924,834
Other capital assets, net of depreciation	7,471,272,669	7,556,578,668	8,610,690,526	8,695,996,525
Total assets	12,805,653,739	12,921,734,137	15,238,627,841	15,354,708,239
Vouchers payable and other current liabilities	199,224,447	200,392,637	199,764,711	200,932,901
Total liabilities	2,680,721,169	2,682,078,541	4,808,514,940	4,809,872,312
Invested in capital assets, net of related debt	9,563,448,965	9,679,340,181	9,162,404,298	9,278,295,514
Restricted for debt service	142,251,835	142,249,835	270,791,371	270,789,371
Unrestricted net assets	367,421,556	366,255,366	378,681,493	377,515,303
Total net assets	10,124,932,570	10,239,655,596	10,430,112,901	10,544,835,927

	Expenses - Governmental Activities	
	As Previously Reported	As Restated
	<u>Statement of Activities</u>	
Administration of Justice	\$ 621,621,169	\$ 621,764,132
Parks	58,841,289	60,416,485
County Administration	237,786,614	250,098,031
Health and Human Services	184,864,636	185,056,824
Flood Control	60,040,715	72,445,450
Road and Bridges	333,135,403	347,524,327
Interest and fiscal charges	108,519,304	108,635,880
Total governmental activities	1,635,518,232	1,676,650,231
Total primary government	1,873,076,943	1,914,208,942

	Program Revenues			
	Operating Grants and Contributions		Capital Grants and Contributions	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Flood Control	\$ 15,127,571	\$ 49,809	\$ 10,040,023	\$ 36,049,692
Road and Bridges	N/C	N/C	609,873,923	616,280,764
Total governmental activities	185,810,774	170,733,012	627,032,044	659,448,554
Total primary government	185,810,774	170,733,012	630,161,556	662,578,066

	Net (Expense) Revenue and Changes in Net Assets - Primary Government			
	Governmental Activities		Total	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Administration of Justice	\$ (459,596,683)	\$ (459,739,646)	\$ (459,596,683)	\$ (459,739,646)
Parks	(52,083,222)	(53,658,418)	(52,083,222)	(53,658,418)
County Administration	(139,360,932)	(151,672,349)	(139,360,932)	(151,672,349)
Health and Human Services	(93,060,578)	(93,252,766)	(93,060,578)	(93,252,766)
Flood Control	(33,865,227)	(35,338,055)	(33,865,227)	(35,338,055)
Road and Bridges	307,522,983	299,540,900	307,522,983	299,540,900
Interest and fiscal charges	(108,519,304)	(108,635,880)	(108,519,304)	(108,635,880)
Total governmental activities	(543,279,964)	(567,073,215)	(543,279,964)	(567,073,215)
Miscellaneous revenue	32,029,428	32,029,430	33,030,376	33,030,378
Net assets - ending	10,124,932,570	10,239,655,596	10,430,112,901	10,544,835,927

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006

	General Fund column		Nonmajor Governmental Funds column		Totals column	
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
<u>Balance Sheet - Governmental Funds</u>						
Investments	N/C	N/C	\$ 425,429,997	\$ 413,429,997	\$ 517,093,770	\$ 505,093,770
Due from other funds	N/C	N/C	38,387,260	26,387,260	104,624,393	92,624,393
Restricted investments	N/C	N/C	-	12,000,000	53,459,034	65,459,034
Advances to other funds	N/C	N/C	-	12,000,000	-	12,000,000
Vouchers payable	22,533,223	23,701,413	N/C	N/C	90,626,409	91,794,599
Due to other funds	N/C	N/C	58,821,761	46,821,761	61,514,832	49,514,832
Advances from other funds	N/C	N/C	-	12,000,000	-	12,000,000
Total liabilities	129,828,459	130,996,649	N/C	N/C	304,707,865	305,876,055
Fund balances:						
Reserved for debt service	109,775,914	109,773,914	N/C	N/C	179,678,267	179,676,267
Unreserved, Designated for capital projects	N/C	N/C	130,212,837	118,212,837	130,212,837	118,212,837
Unreserved, Undesignated - general fund	176,747,059	175,580,869	N/C	N/C	176,747,059	175,580,869
Total fund balances	322,964,514	321,796,324	N/C	N/C	875,576,706	874,408,516
<u>Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds</u>						
Revenues:						
Intergovernmental	N/C	N/C	\$ 201,042,262	\$ 205,642,262	\$ 234,471,733	\$ 239,071,733
Total revenues	N/C	N/C	384,162,986	388,762,986	1,478,072,679	1,482,672,679
Expenditures:						
Administration of justice	562,893,227	563,005,788	45,842,202	45,872,604	608,735,429	608,878,392
Parks	44,225,366	44,400,718	3,949,163	5,117,245	48,174,529	49,517,963
County administration	192,011,395	192,247,201	34,862,871	46,932,211	226,874,266	239,179,412
Health and human services	106,673,678	106,722,239	77,512,377	77,648,182	184,186,055	184,370,421
Flood control	N/C	N/C	51,161,802	58,761,133	51,161,802	58,761,133
Roads and bridges	69,203,621	73,392,320	808,802	10,948,695	70,012,423	84,341,015
Capital outlay	21,335,339	16,574,360	293,905,159	267,362,306	315,240,498	283,936,666
Total expenditures	N/C	N/C	599,686,275	604,286,275	1,714,049,847	1,718,649,847
Fund balances, ending	322,964,514	321,796,324	N/C	N/C	875,576,706	874,408,516
<u>Statement of Fiduciary Net Assets - Agency Funds</u>						
Cash and cash equivalents	\$ 269,713,285	\$ 271,250,925				
Total assets	437,868,427	439,406,067				
Held for others	391,825,611	393,363,251				
Total liabilities	437,868,427	439,406,067				

N/C = no change

In addition to the restatement items noted above, there have been additional subsequent events. The following are additional bond issuances:

On October 12, 2006, the County issued \$135,530,000 Toll Road Senior Lien Revenue Bonds, Series 2006A to provide funds for certain qualifying costs of the IH-10 West Toll Lanes, to provide for the capitalized interest on the bonds, to satisfy the increase in Debt Service Reserve Fund requirements and to pay costs incurred in connection with the issuance of the bonds. The annual interest rates range from 4.5% to 5.0%. The issuance had a premium of \$1,444,319. Interest accrues semiannually and the bonds mature in fiscal year 2036.

On December 13, 2006, the County issued and settled \$73,545,000 Permanent Improvement Refunding Bonds, Series 2006A to refund and defease all or a portion of the County's outstanding General Obligation Commercial Paper Notes, Series B and certain outstanding bonds, and to pay cost

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006

of issuance and refunding. The annual interest rates range from 4%-5%. The issuance had a premium of \$3,768,226. Interest accrues semiannually and the bonds mature in fiscal year 2031. The refund resulted in a decrease in the cash flow requirements of \$2,495,383 and an economic gain of \$1,830,546.

On December 13, 2006, the County issued and settled \$266,960,000 Unlimited Tax Road and Refunding Bonds, Series 2006B to finance certain road projects and to defease all or a portion of the County's outstanding General Obligation Commercial Paper Notes, Series C and to pay cost of issuance and refunding. The annual interest rates range from 4.5%-5%. The issuance had a premium of \$9,471,562. Interest accrues semiannually and the bonds mature in fiscal year 2031. There was no economic gain or loss due to the refunding of commercial paper.

On December 13, 2006, the Flood Control District issued and settled \$94,185,000 Flood Control District Contract Tax Refunding Bonds, Series 2006A to defease all or a portion of the County's outstanding Flood Control District's Contract Tax Commercial Paper Notes, Series F and to pay cost of issuance and refunding. The annual interest rate is at 5%. The issuance had a premium of \$6,185,667. Interest accrues semiannually and the bonds mature in fiscal year 2031. There was no economic gain or loss due to the refunding of commercial paper.

On January 18, 2007, the Flood Control District issued and settled \$89,600,000 Flood Control District Improvement Bonds, Series 2007 to finance certain flood control improvements and to pay cost of issuance. The annual interest rates range from 4.75%-5.0%. The issuance had a premium of \$5,398,016. Interest accrues semiannually and the bonds mature in fiscal year 2031.

On June 13, 2007, the County issued \$395,000,000 in Tax Anticipation Notes, Series 2007. The tax anticipation notes were issued to fund the County's cumulative cash flow deficit for the fiscal year beginning March 1, 2007 and ending February 29, 2008, and will be repaid from fiscal year 2008 tax revenues. The tax anticipation notes, which mature on February 29, 2008, were issued at an annual interest rate of 4.50%.

On June 14, 2007, the County issued \$275,340,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2007A and \$145,570,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2007B (LIBOR-Index Floating Rate) to refund and defease a portion of the County's outstanding Toll Road Revenue Refunding Bonds, Series 1997, Toll Road Revenue and Refunding Bonds, Series 2002 and Toll Road Revenue and Refunding Bonds, Series 2005A, to purchase bond insurance policies for the bonds and to pay costs of such issuance. The annual interest rates range from 4.0% to 5.0%. The issuance had a premium of \$10,050,336. Interest accrues semiannually and the bonds mature in fiscal year 2035.

On August 16, 2007, the County issued \$321,745,000 Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2007C to refund and defease a portion of the County's outstanding Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1997 and Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2003, to purchase bond insurance policies for the bonds and to pay costs of such issuance. The annual interest rates range from 5.0% to 5.25%. The issuance had a premium of \$25,453,252. Interest accrues semiannually and the bonds mature in fiscal year 2033.

REQUIRED SUPPLEMENTARY INFORMATION

**HARRIS COUNTY, TEXAS
GENERAL FUND**

**SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
GENERAL FUND - OPERATING				
Beginning Cash and Investments	\$ 234,921,271	\$ 234,921,271	\$ 240,225,255	\$ 5,303,984
<u>Revenues and Transfers In:</u>				
Taxes	644,913,520	644,913,520	683,297,725	38,384,205
Intergovernmental	25,878,596	30,098,115	33,277,320	3,179,205
Charges for Services	180,174,822	180,174,822	188,402,710	8,227,888
Fines and Forfeitures	23,290,645	23,290,645	23,593,462	302,817
Rentals & Parks	3,930,403	3,930,403	4,465,399	534,996
Reimbursements and Refunds	20,036,020	20,839,432	20,973,542	134,110
Interest	6,529,184	6,529,184	7,708,403	1,179,219
Miscellaneous	4,013,658	4,510,912	15,298,215	10,787,303
Other Transfer In	20,000,000	20,051,491	21,184,659	1,133,168
Total Revenues and Transfers In	928,766,848	934,338,524	998,201,435	63,862,911
Total Available Resources - General Fund - Operating	1,163,688,119	1,169,259,795	1,238,426,690	69,166,895
GENERAL FUND - DEBT SERVICE				
<u>Beginning Cash and Investments</u>				
Hotel Tax, Refunding Series 1998	1,471	1,471	1,503	32
Permanent Improvement Series 1996	2,560,576	2,560,576	2,621,793	61,217
Permanent Improvements Refunding Series 1996	583,529	583,529	604,324	20,795
Permanent Improvements Refunding Series 1997	3,608,150	3,608,150	3,697,772	89,622
Commercial Paper Series A	6,186,864	6,186,864	6,192,704	5,840
Commercial Paper Series B	1,956,056	1,956,056	1,936,445	(19,611)
Commercial Paper Series A1	3,360,024	3,360,024	3,364,677	4,653
HC/FC Agreement 2003B CP Refunding	9,547,505	9,547,505	9,752,374	204,869
HC/FC Agreement 2004A CP Refunding	11,087,971	11,087,971	11,325,891	237,920
Commercial Paper Series D	(755,056)	(755,056)	(755,856)	(800)
Commercial Paper Series D 1	(2,270,308)	(2,270,308)	(2,272,450)	(2,142)
Permanent Improvement Commercial Paper Series D	2,529,219	2,529,219	2,533,985	4,766
Flood Control Comm Paper Agreement	2,732,248	2,732,248	2,657,181	(75,067)
Certificates of Obligation Series 1998	4,880,301	4,880,301	4,994,562	114,261
Certificates of Obligation Series 2001	2,218,332	2,218,332	2,258,675	40,343
Permanent Improvement Refunding Series 2001	1,602,390	1,602,390	1,640,321	37,931
Revenue Refunding Series 2002	53,681	53,681	53,800	119
Revenue Certificates Series 2002	619	619	651	32
Permanent Improvement Refunding Series 2002	22,257,031	22,257,031	22,821,233	564,202
Permanent Improvement Refunding Series 2003A	4,506,890	4,506,890	4,615,390	108,500
Permanent Improvement Refunding Series 2003 B	7,349,572	7,349,572	7,531,697	182,125
Permanent Improvement Refunding Series 1995	1,590,772	1,590,772	1,627,324	36,552
CJC Refunding Series 2004	3,076,848	3,076,848	3,075,637	(1,211)
Tax & Subordinate Lien Refunding Series 2004A	120,314	120,314	120,587	273
Tax & Subordinate Lien Refunding Series 2004B	6,073,776	6,073,776	7,066,057	992,281
Permanent Improvement Refunding Series 2004A	6,557,240	6,557,240	6,719,412	162,172
Commercial Paper Series C	5,918,312	5,918,312	7,099	(5,911,213)
Total Beginning Cash and Investments	107,334,327	107,334,327	104,192,788	(3,141,539)
<u>Revenues and Transfers In:</u>				
Hotel Tax, Refunding Series 1998	5,879,067	5,879,773	5,881,811	2,038
Permanent Improvement Series 1996	234,536	234,536	280,695	46,159
Permanent Improvements Refunding Series 1996	498,358	498,358	473,707	(24,651)
Permanent Improvements Refunding Series 1997	3,494,116	3,494,116	3,144,265	(349,851)
Commercial Paper Series A	148,341	148,341	32,482	(115,859)
Commercial Paper Series B	67,841	67,841	47,974	(19,867)
Commercial Paper Series A1	174,545	174,545	175,348	803
HC/FC Agreement 2003B CP Refunding	10,927,006	10,927,006	8,958,590	(1,968,416)
HC/FC Agreement 2004A CP Refunding	11,587,653	11,587,653	9,220,131	(2,367,522)
Commercial Paper Series D	755,056	755,056	755,856	800
Commercial Paper Series D 1	2,270,308	2,270,308	2,272,450	2,142
Permanent Improvement Commercial Paper Series D	1,947,172	1,947,172	3,748,379	1,801,207
Flood Control Comm Paper Agreement	396,540	396,540	132,669	(263,871)
Certificates of Obligation Series 1998	5,054,245	32,974,157	31,345,431	(1,628,726)
Certificates of Obligation Series 2001	2,332,974	15,966,571	15,307,740	(658,831)
Permanent Improvement Refunding Series 2001	1,601,282	9,364,561	8,879,519	(485,042)

See notes to required supplementary information.

**HARRIS COUNTY, TEXAS
GENERAL FUND**

**SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Revenue Refunding Series 2002	1,288	1,288	1,788	500
Revenue Certificates Series 2002	1,007,265	1,007,265	1,008,821	1,556
Permanent Improvement Refunding Series 2002	19,786,944	19,786,944	19,744,079	(42,865)
Permanent Improvement Refunding Series 2003A	5,008,553	5,008,553	4,510,625	(497,928)
Permanent Improvement Refunding Series 2003 B	7,564,249	19,508,196	33,830,564	14,322,368
Permanent Improvement Refunding Series 1995	1,647,372	15,520,963	14,394,076	(1,126,887)
CJC Refunding Series 2004	5,548,925	5,548,925	4,872,885	(676,040)
Tax & Subordinate Lien Refunding Series 2004A	229,204	229,204	57,168	(172,036)
Tax & Subordinate Lien Refunding Series 2004B	11,078,540	11,078,540	2,775,078	(8,303,462)
Permanent Improvement Refunding Series 2004A	17,612,368	17,612,368	5,944,993	(11,667,375)
Permanent Improvement Refunding Series 2005A	-	78,107,608	80,986,855	2,879,247
Permanent Improvement Refunding Series 2005A -COI	-	291,107	255,022	(36,085)
Road Refunding Series 2005A -COI	-	118,615	118,615	-
Commercial Paper Series C	298,562	298,562	1,388,524	1,089,962
Total Revenues and Transfers In	<u>117,152,310</u>	<u>270,804,672</u>	<u>260,546,140</u>	<u>(10,258,532)</u>
Total Available Resources:				
Hotel Tax, Refunding Series 1998	5,880,538	5,881,244	5,883,314	2,070
Permanent Improvement Series 1996	2,795,112	2,795,112	2,902,488	107,376
Permanent Improvements Refunding Series 1997	1,081,887	1,081,887	1,078,031	(3,856)
Permanent Improvements Refunding Series 1997	7,102,266	7,102,266	6,842,037	(260,229)
Commercial Paper Series A	6,335,205	6,335,205	6,225,186	(110,019)
Commercial Paper Series B	2,023,897	2,023,897	1,984,419	(39,478)
Commercial Paper Series A1	3,534,569	3,534,569	3,540,025	5,456
HC/FC Agreement 2003B CP Refunding	20,474,511	20,474,511	18,710,964	(1,763,547)
HC/FC Agreement 2004A CP Refunding	22,675,624	22,675,624	20,546,022	(2,129,602)
Permanent Improvement Commercial Paper Series D	4,476,391	4,476,391	6,282,364	1,805,973
Flood Control Comm Paper Agreement	3,128,788	3,128,788	2,789,850	(338,938)
Certificates of Obligation Series 1998	9,934,546	37,854,458	36,339,993	(1,514,465)
Certificates of Obligation Series 2001	4,551,306	18,184,903	17,566,415	(618,488)
Permanent Improvement Refunding Series 2001	3,203,672	10,966,951	10,519,840	(447,111)
Revenue Refunding Series 2002	54,969	54,969	55,588	619
Revenue Certificates Series 2002	1,007,884	1,007,884	1,009,472	1,588
Permanent Improvement Refunding Series 2002	42,043,975	42,043,975	42,565,312	521,337
Permanent Improvement Refunding Series 2003A	9,515,443	9,515,443	9,126,015	(389,428)
Permanent Improvement Refunding Series 2003 B	14,913,821	26,857,768	41,362,261	14,504,493
Permanent Improvement Refunding Series 1995	3,238,144	17,111,735	16,021,400	(1,090,335)
CJC Refunding Series 2004	8,625,773	8,625,773	7,948,522	(677,251)
Tax & Subordinate Lien Refunding Series 2004A	349,518	349,518	177,755	(171,763)
Tax & Subordinate Lien Refunding Series 2004B	17,152,316	17,152,316	9,841,135	(7,311,181)
Permanent Improvement Refunding Series 2004A	24,169,608	24,169,608	12,664,405	(11,505,203)
Permanent Improvement Refunding Series 2005A	-	78,107,608	80,986,855	2,879,247
Permanent Improvement Refunding Series 2005A -COI	-	291,107	255,022	(36,085)
Road Refunding Series 2005A -COI	-	118,615	118,615	-
Commercial Paper Series C	6,216,874	6,216,874	1,395,623	(4,821,251)
Total Available Resources - General Fund - Debt Service	<u>224,486,637</u>	<u>378,138,999</u>	<u>364,738,928</u>	<u>(13,400,071)</u>
TOTAL GENERAL FUND				
Beginning Cash and Investments	342,255,598	342,255,598	344,418,043	2,162,445
Revenues and Transfers In	<u>1,045,919,158</u>	<u>1,205,143,196</u>	<u>1,258,747,575</u>	<u>53,604,379</u>
TOTAL GENERAL FUND	<u>\$ 1,388,174,756</u>	<u>\$ 1,547,398,794</u>	<u>\$ 1,603,165,618</u>	<u>\$ 55,766,824</u>

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>(Over) Under</u>
GENERAL FUND DEPARTMENTS				
Public Infrastructure	\$ 12,667,185	\$ 6,661,555	\$ 4,211,897	\$ 2,449,658
Right of Way	2,196,345	2,196,345	1,707,978	488,367
Appraisal District	3,980,635	5,714,264	5,714,263	1
County Judge	4,119,249	4,078,757	3,883,711	195,046
Commissioner Precinct 1	45,700,000	45,683,043	20,008,571	25,674,472
Commissioner Precinct 2	70,600,000	64,484,803	32,669,945	31,814,858
Commissioner Precinct 3	41,800,000	33,962,109	27,145,681	6,816,428
Commissioner Precinct 4	80,900,000	67,585,185	36,068,343	31,516,842
Tunnel and Ferries Operation	5,098,821	5,114,771	4,280,165	834,606
Management Services	12,052,550	42,901,781	37,332,092	5,569,689
Legislative Services	1,361,661	1,061,661	974,799	86,862
Public Infrastructure - Engineering	26,166,598	26,448,761	24,392,331	2,056,430
Community Services Department	7,046,946	7,125,826	7,080,408	45,418
Fire and Emergency Services	4,123,720	4,123,431	3,858,497	264,934
Medical Examiner	13,129,517	13,106,063	11,644,856	1,461,207
Public Health Services	23,891,398	25,074,678	24,693,086	381,592
Public Library	23,765,865	23,553,111	23,525,162	27,949
Domestic Relations	2,873,021	2,864,816	2,532,599	332,217
Community and Economic Development	3,634,506	3,731,406	3,536,651	194,755
Central Technology Center	35,450,000	35,173,940	34,531,338	642,602
MHMRA	26,432,907	26,120,907	26,120,907	-
Facilities and Property Management	54,497,421	55,648,230	53,665,028	1,983,202
Constable Precinct 1	17,931,108	17,940,551	17,398,635	541,916
Constable Precinct 2	4,485,090	4,534,982	4,522,550	12,432
Constable Precinct 3	8,149,753	8,160,016	8,114,970	45,046
Constable Precinct 4	22,416,972	22,771,812	22,592,273	179,539
Constable Precinct 5	22,837,608	22,836,906	22,671,491	165,415
Constable Precinct 6	4,518,607	4,870,575	4,855,211	15,364
Constable Precinct 7	5,299,523	5,769,814	5,653,098	116,716
Constable Precinct 8	5,083,807	5,083,753	5,066,618	17,135
Justice of the Peace 1-1	1,302,964	1,302,964	1,298,170	4,794
Justice of the Peace 1-2	1,803,720	1,848,915	1,835,388	13,527
Justice of the Peace 2-1	637,091	637,091	598,239	38,852
Justice of the Peace 2-2	710,524	710,524	660,330	50,194
Justice of the Peace 3-1	1,420,774	1,420,774	1,342,642	78,132
Justice of the Peace 3-2	889,371	903,030	898,866	4,164
Justice of the Peace 4-1	2,362,274	2,368,099	2,326,769	41,330
Justice of the Peace 4-2	1,196,800	1,196,800	1,136,774	60,026

See notes to required supplementary information.

**HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>(Over) Under</u>
Justice of the Peace 5-1	1,446,994	1,446,994	1,390,942	56,052
Justice of the Peace 5-2	1,909,305	1,973,693	1,951,438	22,255
Justice of the Peace 6-1	472,989	472,989	449,530	23,459
Justice of the Peace 6-2	396,644	397,905	395,810	2,095
Justice of the Peace 7-1	628,500	628,500	542,818	85,682
Justice of the Peace 7-2	659,109	658,448	605,591	52,857
Justice of the Peace 8-1	853,203	853,203	808,320	44,883
Justice of the Peace 8-2	853,203	853,203	821,268	31,935
County Attorney	14,469,962	16,112,918	15,492,988	619,930
County Clerk	23,995,205	22,591,978	21,790,936	801,042
County Treasurer	1,095,876	1,097,876	1,076,049	21,827
Tax Assessor-Collector	25,002,115	24,982,573	24,169,821	812,752
County Sheriff	258,659,396	260,238,928	257,958,046	2,280,882
District Attorney	44,063,572	44,058,872	43,241,593	817,279
District Clerk	28,452,734	27,343,107	26,636,774	706,333
Community Supervision and Correction	810,835	809,920	772,069	37,851
Office of Court Services	5,990,001	5,989,736	5,944,989	44,747
County Auditor	12,441,530	12,441,530	11,211,898	1,229,632
Purchasing Agent	6,212,551	6,212,551	5,310,104	902,447
District Courts	39,661,263	39,654,388	39,278,802	375,586
Agricultural Extension Service	786,662	786,662	758,884	27,778
Juvenile Probation	49,364,497	50,815,832	50,336,838	478,994
Sheriff's Civil Service	245,082	245,082	173,226	71,856
Protective Services- Children and Adults	18,666,657	19,474,818	17,922,205	1,552,613
Children's Assessment Center	4,772,949	4,772,636	4,483,138	289,498
1st Court of Appeals	70,000	82,719	75,884	6,835
14th Court of Appeals	70,000	70,656	67,833	2,823
County Courts	13,587,773	13,586,694	12,851,514	735,180
Probate Court 1	1,060,366	1,170,356	1,160,707	9,649
Probate Court 2	1,060,366	1,085,366	1,059,352	26,014
Probate Court 3	2,334,083	2,465,755	2,434,187	31,568
Probate Court 4	1,060,366	1,060,366	1,026,087	34,279
Total General Fund By Department	<u>1,163,688,119</u>	<u>1,169,208,303</u>	<u>1,042,749,973</u>	<u>126,458,330</u>

See notes to required supplementary information.

**HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>(Over) Under</u>
GENERAL FUND DEBT SERVICE				
1160 HOT Tax Refunding Forward, Series 1998	\$ 5,880,538	\$ 5,881,244	\$ 5,880,639	\$ 605
1180 Criminal Justice Center, Series 1996	2,795,112	2,795,112	2,542,375	252,737
1250 Permanent Improvement Refunding Series 1996	1,081,887	1,081,887	541,275	540,612
1260 Permanent Improvement Refunding Series 1997	7,102,266	7,102,266	3,645,690	3,456,576
1380 Commercial Paper Series A	6,335,205	6,335,205	6,225,186	110,019
1390 Commercial Paper Series B	2,023,897	2,023,897	450,570	1,573,327
1400 Commercial Paper Series C	6,216,874	6,551,874	2,411,172	4,140,702
1420 Commercial Paper Series A1	3,534,569	3,534,569	1,268,454	2,266,115
1430 HC/FC Agreement 2003B CP Refunding	20,474,511	20,474,511	9,780,000	10,694,511
1440 HC/FC Agreement 2004A CP Refunding	22,675,624	22,675,624	11,360,000	11,315,624
1470 Commercial Paper Series - Flood Control	4,476,391	4,476,391	1,238,935	3,237,456
1480 Flood Control CP Agreement	3,128,788	3,128,788	294,751	2,834,037
1500 Certificate of Obligation, Series 1998	9,934,546	37,854,458	32,905,148	4,949,310
1530 Certificate of Obligation, Series 2001	4,551,306	18,184,903	15,908,680	2,276,223
1550 Permanent Improvement Refunding Series 2001	3,203,672	10,966,951	9,364,514	1,602,437
1600 Revenue Refunding Series 2002	54,969	54,969	-	54,969
1610 Revenue Certificates Series 2002	1,007,884	1,007,884	1,007,150	734
1620 Permanent Improvement Refunding Series 2002	42,043,975	42,043,975	22,228,888	19,815,087
1650 Permanent Improvement Refunding Series 2003A	9,515,443	9,515,443	4,557,450	4,957,993
1680 Permanent Improvement Refunding Series 2003B	14,913,821	26,857,768	19,473,872	7,383,896
1710 Permanent Improvement Refunding Series 1999	3,238,144	17,111,735	15,492,437	1,619,298
1730 CJC Refunding Series 2004B	8,625,773	8,625,773	2,761,913	5,863,860
1750 Tax & Sub Lien Refunding 2004A	349,518	349,518	170,766	178,752
1770 Tax & Sub Lien Refunding 2004B	17,152,316	17,152,316	8,604,902	8,547,414
1780 Permanent Improvement Refunding Series 2004A	24,169,608	24,169,608	6,708,812	17,460,796
1800 PIB Refunding Bonds 2005A Debt Service	-	78,139,490	77,408,559	730,931
1810 PIB Refunding Series 2005A Cost of Issuance	-	255,022	255,022	-
1820 Road Refunding Series 2005A Cost of Issuance	-	118,615	118,615	-
Total General Fund Debt Service	<u>224,486,637</u>	<u>378,469,796</u>	<u>262,605,775</u>	<u>115,864,021</u>
Total General Fund	<u>\$ 1,388,174,756</u>	<u>\$ 1,547,678,099</u>	<u>\$ 1,305,355,748</u>	<u>\$ 242,322,351</u>

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
February 28, 2006

1. RECONCILIATION OF ACCOUNTING BASIS

A reconciliation of revenues and expenditures on a cash basis (budgetary basis) compared to modified accrual basis (GAAP) for the general fund is as follows:

	<u>GENERAL FUND</u>
REVENUES AND OTHER SOURCES	
Cash (budgetary) basis	\$ 1,258,747,575
Accrued in 2005, received in 2006	(112,734,552)
Accrued in 2006, to be received in 2007	<u>81,978,664</u>
Revenues on modified accrual (GAAP) basis	<u>1,227,991,687</u>
EXPENDITURES AND OTHER USES	
Cash (budgetary) basis	1,305,355,748
Incurred during 2005, paid in 2006	(148,280,578)
Incurred during 2006, payable in 2007	<u>65,095,191</u>
Expenditures on modified accrual (GAAP) basis	<u>1,222,170,361</u>
Changes in Fund Balances	<u><u>\$ 5,821,326</u></u>

For further budgeting information, see Note 1.E. of the Notes to the Financial Statement

2. ANALYSIS OF SIGNIFICANT EXPENDITURE VARIANCES

In four departments and two general fund debt service accounts, there were significant variances between the budgeted amount and actual expenditures.

The four departments with significant variances are all Commissioner Precincts, which have a combined positive variance of \$95,822,600. The precinct budgets include capital projects for roads and bridges. These budgets are set at the beginning of the projects and roll year-to-year. Therefore, these variances are anticipated.

The Permanent Improvement Refunding Series 2002 has a positive variance of \$19,815,087 and the Permanent Improvement Refunding Series 2004A has a positive variance of \$17,460,796. The County's practice is to have a full year's worth of payments available for tax supported debt. As the tax year and budget year are not the same, there will always be a variance between the budget and actual expenditures. In this case, the debt payment amount is high enough to cause a significant variance, and will continue to cause significant variances in the future.

NONMAJOR GOVERNMENTAL FUNDS

HARRIS COUNTY, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS - SUMMARY
February 28, 2006

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and Investments:				
Cash and cash equivalents	\$ 76,634,267	\$ 15,773,840	\$ 66,375,803	\$ 158,783,910
Investments	99,851,081	48,538,812	265,040,104	413,429,997
Receivables:				
Taxes, net	1,817,685	1,977,478	-	3,795,163
Accounts	35,033,476	-	17,199,780	52,233,256
Accrued interest	2,010,246	11,053	2,342,159	4,363,458
Other	36,682,145	2,791,176	-	39,473,321
Due from other funds	8,431,518	933,503	17,022,239	26,387,260
Due from other governmental units	157,521	-	-	157,521
Inventories and other assets	592,483	-	-	592,483
Restricted cash and cash equivalents	1,869,548	-	1,577,957	3,447,505
Restricted investments	-	-	12,000,000	12,000,000
Advances to other funds	-	-	12,000,000	12,000,000
Notes receivable	827,724	-	-	827,724
Total assets	<u>\$ 263,907,694</u>	<u>\$ 70,025,862</u>	<u>\$ 393,558,042</u>	<u>\$ 727,491,598</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Vouchers payable	\$ 32,897,302	\$ -	\$ 35,195,884	\$ 68,093,186
Accrued payroll and compensated absences	4,333,037	-	-	4,333,037
Retainage payable	703,574	-	10,182,586	10,886,160
Due to other funds	46,087,692	8,251	725,818	46,821,761
Due to other governmental units	2,319,369	-	-	2,319,369
Deferred revenue	27,860,239	1,977,478	588,176	30,425,893
Advances from other funds	-	-	12,000,000	12,000,000
Total liabilities	<u>114,201,213</u>	<u>1,985,729</u>	<u>58,692,464</u>	<u>174,879,406</u>
Fund balances:				
Reserved for:				
Encumbrances	25,013,725	-	204,652,741	229,666,466
Debt service	1,862,220	68,040,133	-	69,902,353
Inventory	439,459	-	-	439,459
Prepays	39,897	-	-	39,897
Advances	-	-	12,000,000	12,000,000
Grant programs	1,669,212	-	-	1,669,212
Unreserved:				
Designated for capital projects	-	-	118,212,837	118,212,837
Undesignated	120,681,968	-	-	120,681,968
Total fund balances	<u>149,706,481</u>	<u>68,040,133</u>	<u>334,865,578</u>	<u>552,612,192</u>
Total liabilities and fund balances	<u>\$ 263,907,694</u>	<u>\$ 70,025,862</u>	<u>\$ 393,558,042</u>	<u>\$ 727,491,598</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS - SUMMARY
For the Year Ended February 28, 2006

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES				
Taxes	\$ 73,428,086	\$ 57,641,935	\$ -	\$ 131,070,021
Charges for services	9,697,350	-	4,500	9,701,850
Lease revenue	136,385	-	-	136,385
Intergovernmental	156,405,404	-	49,236,858	205,642,262
Earnings on investments	5,487,700	1,401,685	11,035,363	17,924,748
Miscellaneous	14,281,982	113,567	9,892,171	24,287,720
Total revenues	<u>259,436,907</u>	<u>59,157,187</u>	<u>70,168,892</u>	<u>388,762,986</u>
EXPENDITURES				
Current operating:				
Administration of justice	44,409,303	-	1,463,301	45,872,604
Parks	3,854,150	-	1,263,095	5,117,245
County administration	28,248,333	-	18,683,878	46,932,211
Health and human services	76,487,959	-	1,160,223	77,648,182
Flood control	51,815,910	-	6,945,223	58,761,133
Tax administration	440,799	-	-	440,799
Roads and bridges	-	-	10,948,695	10,948,695
Capital outlay	25,410,536	-	241,951,770	267,362,306
Debt service:				
Principal retirement	4,235,000	39,495,000	-	43,730,000
Bond issuance costs	-	209,039	-	209,039
Interest and fiscal charges	18,302,389	28,960,458	1,214	47,264,061
Total Expenditures	<u>253,204,379</u>	<u>68,664,497</u>	<u>282,417,399</u>	<u>604,286,275</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,232,528</u>	<u>(9,507,310)</u>	<u>(212,248,507)</u>	<u>(215,523,289)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	36,038,315	3,397,488	18,056,818	57,492,621
Transfers out	(37,241,687)	(453,006)	(31,318,415)	(69,013,108)
Contributions	2,500,000	-	-	2,500,000
Refunding bonds issued	-	34,420,000	-	34,420,000
Premium on bonds issued	-	3,011,792	-	3,011,792
Commercial paper issued	-	-	195,581,839	195,581,839
Payments to refunding bond escrow agent	-	(37,101,481)	-	(37,101,481)
Sale of capital assets	578,851	-	357,142	935,993
Total other financing sources(uses)	<u>1,875,479</u>	<u>3,274,793</u>	<u>182,677,384</u>	<u>187,827,656</u>
Net changes in fund balances	8,108,007	(6,232,517)	(29,571,123)	(27,695,633)
Fund balances, beginning	141,598,474	74,272,650	364,436,701	580,307,825
Fund balances, ending	<u>\$ 149,706,481</u>	<u>\$ 68,040,133</u>	<u>\$ 334,865,578</u>	<u>\$ 552,612,192</u>

Special Revenue Funds are used to account for specific revenue sources (other than expendable trusts and capital projects), which are restricted to expenditures for specified purposes.

FLOOD CONTROL DISTRICT OPERATIONS AND MAINTENANCE FUND - This fund is used to account for all revenues and expenditures relating to general operations of Harris County Flood Control District. The Flood Control District is responsible for developing a flood control plan for the County, carrying out an ongoing capital improvement program, maintaining district facilities and providing flood watch and flood alert programs.

SPORTS & CONVENTION CORPORATION - This fund was established under the Texas Transportation Act for the purpose of aiding and acting on behalf in managing, operating, maintaining and developing the sports and entertainment complex located on property owned by the County.

HOTEL OCCUPANCY TAX REVENUE FUND - This fund was established in September 1987 to account for revenues primarily generated from a hotel occupancy tax and expenditures that serve the purpose of attracting visitors and promoting tourism. Hotel Occupancy taxes are currently pledged for debt service on Hotel Occupancy Refunding Bonds that were sold in 1997.

LAW LIBRARY FUND - This fund accounts for revenues and expenditures to maintain a law library for members of the Texas Bar Association in Harris County. It is financed by a \$15.00 fee which is assessed against each civil case filed in County and District Courts of Harris County.

DEED RESTRICTION ENFORCEMENT FUND - This fund was authorized under House Bill 356 and provides for fees to administer the enforcement of deed restriction violations affecting real property subdivisions. This act requires fees be used only for enforcement of the deed restriction violations, and any unused funds are to be refunded to the complainants.

APPELLATE JUDICIAL SYSTEM FUND - This fund was authorized under House Bill 1889 and provides for a court fee of \$5.00 for each civil suit filed to be assessed to assist in financing the Courts of Appeals in processing appeals filed from County Courts, County Courts at Law, Probate Courts and District Courts.

FAMILY PROTECTION FUND - This fund was authorized under House Bill 2292 and provides for a court fee of \$15.00 for each divorce case filed. Moneys collected by the District Clerk are to be used for court-related services only.

STORMWATER MANAGEMENT FUND - This fund was established to account for the revenues and expenditures under interagency agreements for the implementation of storm water permit program.

SAN JACINTO WETLANDS PROJECT FUND - This fund was established to account for moneys received under the terms of a court settlement. Moneys received are used to clean up a hazardous waste dump and establish a nature preserve at the site.

TCEQ POLLUTION CONTROL – This fund is used to account for funds from TNRC and donations to coordinate pollution control efforts.

ELECTION SERVICES - This fund is used for defraying expenses of the County Clerk’s Office in conducting Harris County elections.

LAW ENFORCEMENT FORFEITED FUND – This fund is used to account for expenses for the investigation of alleged violations of criminal law. It is also utilized to account for assets seized pursuant to the state forfeiture law Chapter 59, Code of Criminal Procedure and the federal forfeited asset programs.

DISPUTE RESOLUTION FUND - This fund is used to account for funds collected after October 1, 1995 from a fee of \$10.00 assessed on cases to fund an alternative system for the peaceable and expeditious resolution of citizen disputes not requiring formal court action.

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LEOSE-LAW ENFORCEMENT - This fund was authorized under S.B. 1135 and provides for state moneys to law enforcement agencies to ensure continuing education for persons licensed under Chapter 415, Government Code.

CHILD SUPPORT ENFORCEMENT - This fund accounts for funds received from the Texas Attorney General's Office for reimbursement to the County for processing child support payments sent to the County as part of the Title IV Part D of the Federal Social Security Act.

LIBRARY DONATION FUND – This fund accounts for revenues from donations and contributions made to the Harris County Library for specific reason.

DONATION FUND - This fund is used to account for cash donations accepted by Commissioners Court for designated purposes. Separate accounts are maintained for various types of donations.

RECORDS MANAGEMENT – This fund is used to account for fees collected for records management and preservation services when documents are filed in the offices of the court clerks.

JUSTICE COURT TECHNOLOGY – This fund is used to account for fees collected from defendants convicted of misdemeanor offenses in a justice court.

DISTRICT ATTORNEY ADMINISTRATION - Confiscated gambling proceeds forfeited under Article 18.18 of the Texas Code of Criminal Procedure are deposited in this fund and are available to the District Attorney for use in special investigations. Fees collected in connection with processing checks issued or passed in violation of the Texas Penal Code are deposited in this fund and used for the purpose of defraying the salaries and expenses of the District Attorney's Office

COUNTY ATTORNEY ADMINISTRATION – House Bill 1672 allows a county with a population of 3.3 million or more to impose an administrative charge of \$1.00 in association with collecting a toll or charge for each event of nonpayment of a required toll or charge imposed under Section 284.069 of the Transportation Code. The fees collected for this charge are to be administered by the county attorney and may be used only to defray the salaries and expenses of the attorney's office, but not to supplement the county attorney's salary.

COURTHOUSE SECURITY JUSTICE COURT – This fund was established according to House Bill 1934, which states that a defendant convicted of a misdemeanor offense in a justice court shall pay a \$4.00 security fee as a cost of court. Fees collected are to be used to provide building security for buildings housing a justice court.

RESTRICTED FUNDS – This fund is used to account for funds collected and set aside by Precinct 4 related to the development of the Crosby Community Center.

TIRZ AFFORDABLE HOUSING – This fund is used to revitalize or redevelop unproductive, underproductive or blighted areas. The participating taxing units contribute some or all of the tax revenues generated by the growth in a TIRZ's taxable value to the revitalization or redevelopment effort.

HARRIS COUNTY JUVENILE BOARD - This fund was established to account for juvenile probation services funded by the Texas Juvenile Probation Commission in Harris County.

FLOOD CONTROL GRANTS - These funds were established to account for grant programs applicable to the Harris County Flood Control District.

GRANTS - These funds were established to account for grant programs applicable to the County.



HARRIS COUNTY, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
February 28, 2006

	Flood Control	Sports & Convention Corporation	Hotel Occupancy Tax Revenue	Law Library	Deed Restriction Enforcement	Appellate Judicial System
ASSETS						
Cash and cash equivalents	\$ 9,311,890	\$ 3,352,245	\$ 660,858	\$ 368,188	\$ 3,396	\$ 79,406
Investments	67,830,897	1,523,376	563,680	407,729	1,879	71,400
Receivables:						
Taxes, net	1,817,685	-	-	-	-	-
Accounts, net	323	7,089,104	63,411	32	-	-
Accrued interest	177,788	1,729,331	3,065	2,217	10	388
Other	2,625,435	-	3,741,514	2,460	-	90,650
Due from other funds	658,932	1,727,427	21,353	-	-	-
Due from other governmental units	-	-	-	-	-	-
Inventories and other assets	5,047	95,572	-	-	-	-
Restricted cash and cash equivalents	1,862,220	7,328	-	-	-	-
Notes receivable	-	-	-	-	-	-
Total assets	<u>\$ 84,290,217</u>	<u>\$ 15,524,383</u>	<u>\$ 5,053,881</u>	<u>\$ 780,626</u>	<u>\$ 5,285</u>	<u>\$ 241,844</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Vouchers payable	\$ 3,348,901	\$ 1,843,401	\$ 2,276,698	\$ 17,867	\$ -	\$ 15,994
Accrued payroll and compensated absences	1,567,738	14,135	-	30,442	-	4,737
Retainages payable	175,244	349,640	-	-	-	-
Due to other funds	85,217	21,353	72,180	-	-	-
Due to other governmental units	-	-	-	-	-	-
Deferred revenue	1,818,008	3,218,381	2,701,729	32	-	91,675
Total liabilities	<u>6,995,108</u>	<u>5,446,910</u>	<u>5,050,607</u>	<u>48,341</u>	<u>-</u>	<u>112,406</u>
Fund Balances:						
Reserved for encumbrances	23,277,350	-	265,129	43,628	-	64,977
Reserved for debt service	1,862,220	-	-	-	-	-
Reserved for inventory	-	-	-	-	-	-
Reserved for prepaids	5,047	-	-	-	-	-
Reserved for grant programs	-	-	-	-	-	-
Unreserved:						
Undesignated	52,150,492	10,077,473	(261,855)	688,657	5,285	64,461
Total fund balances	<u>77,295,109</u>	<u>10,077,473</u>	<u>3,274</u>	<u>732,285</u>	<u>5,285</u>	<u>129,438</u>
Total liabilities and fund balances	<u>\$ 84,290,217</u>	<u>\$ 15,524,383</u>	<u>\$ 5,053,881</u>	<u>\$ 780,626</u>	<u>\$ 5,285</u>	<u>\$ 241,844</u>

(continued)

Family Protection	Stormwater Management	San Jacinto Wetlands Project	TCEQ Pollution Control	Election Services	Law Enforcement Forfeited Fund	Dispute Resolution	LEOSE-Law Enforcement
\$ 103,153	\$ 1,032,509	\$ 25,516	\$ 482,381	\$ 170,484	\$ 31,987,161	\$ 310,191	\$ 414,909
90,189	866,188	22,547	407,728	142,799	8,093,192	261,171	356,997
-	-	-	-	-	-	-	-
-	-	-	-	124,235	-	-	-
490	4,709	123	2,217	776	4,275	1,420	1,941
-	-	-	1,648	-	167,574	1,610	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	33,980	-	870
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 193,832</u>	<u>\$ 1,903,406</u>	<u>\$ 48,186</u>	<u>\$ 893,974</u>	<u>\$ 438,294</u>	<u>\$ 40,286,182</u>	<u>\$ 574,392</u>	<u>\$ 774,717</u>

\$ 9,923	\$ 117,902	\$ -	\$ 62,014	\$ 10	\$ 15,008,465	\$ 191,783	\$ 53,379
-	-	-	-	-	-	-	-
-	-	-	-	-	136,248	-	-
-	-	-	-	-	200	-	-
-	-	-	-	-	-	-	-
-	-	-	-	100,739	-	-	-
<u>9,923</u>	<u>117,902</u>	<u>-</u>	<u>62,014</u>	<u>100,749</u>	<u>15,144,913</u>	<u>191,783</u>	<u>53,379</u>

28,072	185,215	-	180,643	684	363,463	-	20,162
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	33,980	-	870
-	-	-	-	-	-	-	-
<u>155,837</u>	<u>1,600,289</u>	<u>48,186</u>	<u>651,317</u>	<u>336,861</u>	<u>24,743,826</u>	<u>382,609</u>	<u>700,306</u>
<u>183,909</u>	<u>1,785,504</u>	<u>48,186</u>	<u>831,960</u>	<u>337,545</u>	<u>25,141,269</u>	<u>382,609</u>	<u>721,338</u>
<u>\$ 193,832</u>	<u>\$ 1,903,406</u>	<u>\$ 48,186</u>	<u>\$ 893,974</u>	<u>\$ 438,294</u>	<u>\$ 40,286,182</u>	<u>\$ 574,392</u>	<u>\$ 774,717</u>

(continued)

HARRIS COUNTY, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
February 28, 2006

	Child Support Enforcement	Library Donation Fund	Donation Fund	Records Management	Justice Court Technology	District Attorney Administration
ASSETS						
Cash and cash equivalents	\$ 313,428	\$ 208,192	\$ 1,292,816	\$ 4,562,381	\$ 18,267	\$ 8,205,449
Investments	261,171	174,741	1,084,145	3,887,513	15,031	6,979,700
Receivables:						
Taxes, net	-	-	-	-	-	-
Accounts, net	-	-	-	-	-	-
Accrued interest	1,420	950	5,894	21,136	82	13,854
Other	17,296	95	-	24,103	-	19,378
Due from other funds	-	-	-	-	2,681	-
Due from other governmental units	-	-	-	-	-	-
Inventories and other assets	-	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
Total assets	<u>\$ 593,315</u>	<u>\$ 383,978</u>	<u>\$ 2,382,855</u>	<u>\$ 8,495,133</u>	<u>\$ 36,061</u>	<u>\$ 15,218,381</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Vouchers payable	\$ 47,452	\$ 23,486	\$ 186,725	\$ 122,490	\$ -	\$ 5,026
Accrued payroll and compensated absences	82,323	-	4,587	-	-	-
Retainages payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Due to other governmental units	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	<u>129,775</u>	<u>23,486</u>	<u>191,312</u>	<u>122,490</u>	<u>-</u>	<u>5,026</u>
Fund Balances:						
Reserved for encumbrances	102,910	48,858	36,519	313,892	-	61,348
Reserved for debt service	-	-	-	-	-	-
Reserved for inventory	-	-	-	-	-	-
Reserved for prepaids	-	-	-	-	-	-
Reserved for grant programs	-	-	-	-	-	-
Unreserved:						
Undesignated	360,630	311,634	2,155,024	8,058,751	36,061	15,152,007
Total fund balances	<u>463,540</u>	<u>360,492</u>	<u>2,191,543</u>	<u>8,372,643</u>	<u>36,061</u>	<u>15,213,355</u>
Total liabilities and fund balances	<u>\$ 593,315</u>	<u>\$ 383,978</u>	<u>\$ 2,382,855</u>	<u>\$ 8,495,133</u>	<u>\$ 36,061</u>	<u>\$ 15,218,381</u>

(continued)

County Attorney Administration	Courthouse Security Justice Court	Restricted Funds	TIRZ Affordable Housing	Harris County Juvenile Board	Flood Control Grants	Grants	Total
\$ 23,482	\$ 4,565	\$ 388,148	\$ 2,127,564	\$ 8,744,161	\$ -	\$ 2,443,527	\$ 76,634,267
20,668	3,758	372,029	278,082	3,968,061	-	2,166,410	99,851,081
-	-	-	-	-	-	-	1,817,685
57,859	-	-	-	3,376,407	2,554,516	21,767,589	35,033,476
112	20	2,023	1,512	-	-	34,493	2,010,246
-	-	19,000	-	-	2,743,059	27,228,323	36,682,145
-	-	-	-	747,771	17,246	5,256,108	8,431,518
-	-	-	-	-	-	157,521	157,521
-	-	-	-	-	-	457,014	592,483
-	-	-	-	-	-	-	1,869,548
-	-	-	-	-	-	827,724	827,724
<u>\$ 102,121</u>	<u>\$ 8,343</u>	<u>\$ 781,200</u>	<u>\$ 2,407,158</u>	<u>\$ 16,836,400</u>	<u>\$ 5,314,821</u>	<u>\$ 60,338,709</u>	<u>\$ 263,907,694</u>
\$ 10,165	\$ -	\$ -	\$ -	\$ 599,915	\$ 19,404	\$ 8,936,302	\$ 32,897,302
-	-	-	-	879,927	-	1,749,148	4,333,037
-	-	-	-	-	-	42,442	703,574
-	3,665	-	-	832,453	5,295,417	39,777,207	46,087,692
-	-	-	-	-	-	2,319,369	2,319,369
-	-	-	-	14,524,105	-	5,405,570	27,860,239
<u>10,165</u>	<u>3,665</u>	<u>-</u>	<u>-</u>	<u>16,836,400</u>	<u>5,314,821</u>	<u>58,230,038</u>	<u>114,201,213</u>
-	-	20,875	-	-	-	-	25,013,725
-	-	-	-	-	-	-	1,862,220
-	-	-	-	-	-	439,459	439,459
-	-	-	-	-	-	-	39,897
-	-	-	-	-	-	1,669,212	1,669,212
91,956	4,678	760,325	2,407,158	-	-	-	120,681,968
<u>91,956</u>	<u>4,678</u>	<u>781,200</u>	<u>2,407,158</u>	<u>-</u>	<u>-</u>	<u>2,108,671</u>	<u>149,706,481</u>
<u>\$ 102,121</u>	<u>\$ 8,343</u>	<u>\$ 781,200</u>	<u>\$ 2,407,158</u>	<u>\$ 16,836,400</u>	<u>\$ 5,314,821</u>	<u>\$ 60,338,709</u>	<u>\$ 263,907,694</u>

Concluded

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For The Year Ended February 28, 2006

	Flood Control	Sports and Convention Corporation	Hotel Occupancy Tax Revenue	Law Library	Deed Restriction Enforcement	Appellate Judicial System
REVENUES						
Taxes	\$ 54,925,527	\$ -	\$ 18,502,559	\$ -	\$ -	\$ -
Charges for services	-	-	-	1,250,406	-	419,028
Lease revenue	136,385	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Earnings on investments	1,903,542	934,395	87,421	29,417	185	5,347
Miscellaneous	239,234	4,356,982	626,640	40,063	-	95,701
Total revenues	<u>57,204,688</u>	<u>5,291,377</u>	<u>19,216,620</u>	<u>1,319,886</u>	<u>185</u>	<u>520,076</u>
EXPENDITURES						
Current operating:						
Administration of justice	-	-	-	-	-	510,942
Parks	-	3,794,059	10,000	-	-	-
County administration	-	-	13,421,779	14,675	-	6,462
Health and human services	-	-	-	1,240,501	-	-
Flood control	51,687,419	-	-	-	-	-
Tax administration	440,799	-	-	-	-	-
Capital outlay	3,303,690	-	-	-	-	-
Debt service:						
Principal retirement	4,235,000	-	-	-	-	-
Interest and fiscal charges	18,302,389	-	-	-	-	-
Total expenditures	<u>77,969,297</u>	<u>3,794,059</u>	<u>13,431,779</u>	<u>1,255,176</u>	<u>-</u>	<u>517,404</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,764,609)</u>	<u>1,497,318</u>	<u>5,784,841</u>	<u>64,710</u>	<u>185</u>	<u>2,672</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	22,673,482	-	-	-	-	-
Transfers out	(262,338)	-	(9,559,239)	-	-	-
Contributions	-	2,500,000	-	-	-	-
Sale of capital assets	578,851	-	-	-	-	-
Total other financial sources (uses)	<u>22,989,995</u>	<u>2,500,000</u>	<u>(9,559,239)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	2,225,386	3,997,318	(3,774,398)	64,710	185	2,672
Fund balances, beginning	75,069,723	6,080,155	3,777,672	667,575	5,100	126,766
Fund balances, ending	<u>\$ 77,295,109</u>	<u>\$ 10,077,473</u>	<u>\$ 3,274</u>	<u>\$ 732,285</u>	<u>\$ 5,285</u>	<u>\$ 129,438</u>

(continued)

Family Protection	Stormwater Management	San Jacinto Wetlands Project	TCEQ Pollution Control	Election Services	Law Enforcement Forfeited Fund	Dispute Resolution	LEOSE-Law Enforcement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
285,496	-	-	-	-	-	893,684	-
-	-	-	-	-	-	-	-
-	2,402,369	-	480,000	-	282,984	-	559,407
7,542	32,353	1,682	29,205	7,361	880,330	18,892	23,898
-	827	-	15,690	152,698	3,522,263	-	792
<u>293,038</u>	<u>2,435,549</u>	<u>1,682</u>	<u>524,895</u>	<u>160,059</u>	<u>4,685,577</u>	<u>912,576</u>	<u>584,097</u>
31,250	-	-	-	-	3,918,683	889,867	436,794
-	-	-	-	-	-	-	-
25,660	1,088,792	-	255	50,951	-	-	-
159,568	-	-	107,725	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	9,813	-	3,183,079	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>216,478</u>	<u>1,088,792</u>	<u>-</u>	<u>117,793</u>	<u>50,951</u>	<u>7,101,762</u>	<u>889,867</u>	<u>436,794</u>
76,560	1,346,757	1,682	407,102	109,108	(2,416,185)	22,709	147,303
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
76,560	1,346,757	1,682	407,102	109,108	(2,416,185)	22,709	147,303
107,349	438,747	46,504	424,858	228,437	27,557,454	359,900	574,035
<u>\$ 183,909</u>	<u>\$ 1,785,504</u>	<u>\$ 48,186</u>	<u>\$ 831,960</u>	<u>\$ 337,545</u>	<u>\$ 25,141,269</u>	<u>\$ 382,609</u>	<u>\$ 721,338</u>

(continued)

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For The Year Ended February 28, 2006

	Child Support Enforcement	Library Donation Fund	Donation Fund	Records Management	Justice Court Technology	District Attorney Administration
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	6,138,592	19,279	269,860
Lease revenue	-	-	-	-	-	-
Intergovernmental	1,082,240	-	21,147	-	-	-
Earnings on investments	28,042	12,674	80,878	234,321	600	505,348
Miscellaneous	-	206,553	268,607	-	-	47,466
Total revenues	<u>1,110,282</u>	<u>219,227</u>	<u>370,632</u>	<u>6,372,913</u>	<u>19,879</u>	<u>822,674</u>
EXPENDITURES						
Current operating:						
Administration of justice	1,505,348	-	35,683	386,670	-	66,867
Parks	-	-	23,805	-	-	-
County administration	-	-	-	195,435	-	-
Health and human services	-	158,658	104,337	-	-	-
Flood control	-	-	-	-	-	-
Tax administration	-	-	-	-	-	-
Capital outlay	6,067	-	18,500	901,455	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>1,511,415</u>	<u>158,658</u>	<u>182,325</u>	<u>1,483,560</u>	<u>-</u>	<u>66,867</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(401,133)</u>	<u>60,569</u>	<u>188,307</u>	<u>4,889,353</u>	<u>19,879</u>	<u>755,807</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	(1,525)	-	-	-	-
Contributions	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-
Total other financial sources (uses)	<u>-</u>	<u>(1,525)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balance	(401,133)	59,044	188,307	4,889,353	19,879	755,807
Fund balances, beginning	864,673	301,448	2,003,236	3,483,290	16,182	14,457,548
Fund balances, ending	<u>\$ 463,540</u>	<u>\$ 360,492</u>	<u>\$ 2,191,543</u>	<u>\$ 8,372,643</u>	<u>\$ 36,061</u>	<u>\$ 15,213,355</u>

(continued)

County Attorney Administration	Courthouse Security Justice Court	Restricted Funds	TIRZ Affordable Housing	Harris County Juvenile Board	Flood Control Grants	Grants	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,428,086
106,967	4,678	12,646	-	-	-	296,714	9,697,350
-	-	-	-	-	-	-	136,385
-	-	-	-	23,776,202	9,756,640	118,044,415	156,405,404
154	-	38,570	11,259	476,369	-	137,915	5,487,700
-	-	-	1,799,946	377,630	1,245	2,529,645	14,281,982
<u>107,121</u>	<u>4,678</u>	<u>51,216</u>	<u>1,811,205</u>	<u>24,630,201</u>	<u>9,757,885</u>	<u>121,008,689</u>	<u>259,436,907</u>
-	-	-	-	24,580,879	-	12,046,320	44,409,303
-	-	-	-	-	-	26,286	3,854,150
15,165	-	1,113	-	-	-	13,428,046	28,248,333
-	-	1,098,393	271,552	-	-	73,347,225	76,487,959
-	-	-	-	-	128,491	-	51,815,910
-	-	-	-	-	-	-	440,799
-	-	4,223	-	49,322	1,778,561	16,155,826	25,410,536
-	-	-	-	-	-	-	4,235,000
-	-	-	-	-	-	-	18,302,389
<u>15,165</u>	<u>-</u>	<u>1,103,729</u>	<u>271,552</u>	<u>24,630,201</u>	<u>1,907,052</u>	<u>115,003,703</u>	<u>253,204,379</u>
<u>91,956</u>	<u>4,678</u>	<u>(1,052,513)</u>	<u>1,539,653</u>	<u>-</u>	<u>7,850,833</u>	<u>6,004,986</u>	<u>6,232,528</u>
-	-	223,232	-	-	219,090	12,922,511	36,038,315
-	-	-	(223,232)	-	(8,069,923)	(19,125,430)	(37,241,687)
-	-	-	-	-	-	-	2,500,000
-	-	-	-	-	-	-	578,851
<u>-</u>	<u>-</u>	<u>223,232</u>	<u>(223,232)</u>	<u>-</u>	<u>(7,850,833)</u>	<u>(6,202,919)</u>	<u>1,875,479</u>
91,956	4,678	(829,281)	1,316,421	-	-	(197,933)	8,108,007
-	-	1,610,481	1,090,737	-	-	2,306,604	141,598,474
<u>\$ 91,956</u>	<u>\$ 4,678</u>	<u>\$ 781,200</u>	<u>\$ 2,407,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,108,671</u>	<u>\$ 149,706,481</u>

Concluded

HARRIS COUNTY, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS-
SPECIAL REVENUE - GRANTS
February 28, 2006

	Federal Grant Programs	State and Local Grant Programs	Total
ASSETS			
Cash and cash equivalents	\$ 1,124,688	\$ 1,318,839	\$ 2,443,527
Investments	1,012,745	1,153,665	2,166,410
Accounts receivable	20,175,523	1,592,066	21,767,589
Accrued interest receivable	28,220	6,273	34,493
Other receivables	25,118,732	2,109,591	27,228,323
Due from other funds	5,256,108	-	5,256,108
Due from other governmental units	157,521	-	157,521
Inventories	439,459	-	439,459
Prepays and other assets	17,555	-	17,555
Notes receivable	827,724	-	827,724
Total assets	<u>\$ 54,158,275</u>	<u>\$ 6,180,434</u>	<u>\$60,338,709</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable	\$ 8,585,567	\$ 350,735	\$ 8,936,302
Accrued payroll and compensated absences	1,272,121	477,027	1,749,148
Retainages payable	42,442	-	42,442
Due to other funds	38,488,858	1,288,349	39,777,207
Due to other governmental units	2,319,369	-	2,319,369
Deferred revenue	1,341,247	4,064,323	5,405,570
Total liabilities	<u>52,049,604</u>	<u>6,180,434</u>	<u>58,230,038</u>
Fund Balances:			
Reserved	<u>2,108,671</u>	<u>-</u>	<u>2,108,671</u>
Total liabilities and fund balances	<u>\$ 54,158,275</u>	<u>\$ 6,180,434</u>	<u>\$60,338,709</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS -
SPECIAL REVENUE - GRANTS
For The Year Ended February 28, 2006

	Federal Grant Programs	State and Local Grant Programs	Total
REVENUES			
Intergovernmental	\$ 109,836,671	\$ 8,207,744	\$ 118,044,415
Charges for services	296,714	-	296,714
Earnings on investments	136,767	1,148	137,915
Miscellaneous	2,506,863	22,782	2,529,645
Total revenues	<u>112,777,015</u>	<u>8,231,674</u>	<u>121,008,689</u>
EXPENDITURES			
Administration of justice	8,338,873	3,707,447	12,046,320
Parks	26,286	-	26,286
County administration	12,895,226	532,820	13,428,046
Health and human services	67,909,991	5,437,234	73,347,225
Capital outlay	16,081,669	74,157	16,155,826
Total expenditures	<u>105,252,045</u>	<u>9,751,658</u>	<u>115,003,703</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,524,970</u>	<u>(1,519,984)</u>	<u>6,004,986</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	10,706,996	2,215,515	12,922,511
Transfers out	<u>(18,429,899)</u>	<u>(695,531)</u>	<u>(19,125,430)</u>
Total transfers	<u>(7,722,903)</u>	<u>1,519,984</u>	<u>(6,202,919)</u>
Net changes in fund balances	(197,933)	-	(197,933)
Fund balances, beginning	<u>2,306,604</u>	<u>-</u>	<u>2,306,604</u>
Fund balances, ending	<u><u>\$ 2,108,671</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,108,671</u></u>

HARRIS COUNTY, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE - GRANTS
FEDERAL PROGRAMS
February 28, 2006

	Department of Housing and Urban Development	Department of Homeland Security	Department of Justice	Election Assistance Commission	Department of Agriculture	Department of Health and Human Services	Other Federal Programs	Total
ASSETS								
Cash and cash equivalents	\$ -	\$ -	\$ 1,111,103	\$ -	\$ -	\$ -	\$ 13,585	\$ 1,124,688
Investments	-	-	1,001,471	-	-	-	11,274	1,012,745
Accounts receivable	118,453	13,721,158	276,632	-	1,628,175	3,901,927	529,178	20,175,523
Accrued interest receivable	22,714	-	5,445	-	-	-	61	28,220
Other receivables	6,080,630	14,342,263	1,377	-	360,741	4,119,322	214,399	25,118,732
Due from other funds	-	5,256,108	-	-	-	-	-	5,256,108
Due from other governmental units	157,521	-	-	-	-	-	-	157,521
Inventories	-	-	-	-	-	439,459	-	439,459
Prepays and other assets	-	-	-	-	17,555	-	-	17,555
Notes receivable	827,724	-	-	-	-	-	-	827,724
Total assets	<u>\$ 7,207,042</u>	<u>\$ 33,319,529</u>	<u>\$ 2,396,028</u>	<u>\$ -</u>	<u>\$ 2,006,471</u>	<u>\$ 8,460,708</u>	<u>\$ 768,497</u>	<u>\$ 54,158,275</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Vouchers payable	\$ 3,060,190	\$ 2,542,972	\$ 210,612	\$ -	\$ 38,949	\$ 2,619,019	\$ 113,825	\$ 8,585,567
Accrued payroll and compensated absences	286,443	-	107,570	-	353,341	496,347	28,420	1,272,121
Retainages payable	40,927	-	-	-	-	-	1,515	42,442
Due to other funds	1,500,113	30,776,557	-	-	1,614,181	4,135,848	462,159	38,488,858
Due to other governmental units	2,319,369	-	-	-	-	-	-	2,319,369
Deferred revenue	-	-	1,178,669	-	-	-	162,578	1,341,247
Total liabilities	<u>7,207,042</u>	<u>33,319,529</u>	<u>1,496,851</u>	<u>-</u>	<u>2,006,471</u>	<u>7,251,214</u>	<u>768,497</u>	<u>52,049,604</u>
Fund balances	<u>-</u>	<u>-</u>	<u>899,177</u>	<u>-</u>	<u>-</u>	<u>1,209,494</u>	<u>-</u>	<u>2,108,671</u>
Total liabilities and fund balances	<u>\$ 7,207,042</u>	<u>\$ 33,319,529</u>	<u>\$ 2,396,028</u>	<u>\$ -</u>	<u>\$ 2,006,471</u>	<u>\$ 8,460,708</u>	<u>\$ 768,497</u>	<u>\$ 54,158,275</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE - GRANTS - FEDERAL PROGRAMS
For The Year Ended February 28, 2006

	Department of Housing and Urban Development	Department of Homeland Security	Department of Justice	Election Assistance Commission	Department of Agriculture	Department of Health and Human Services	Other Federal Programs	Total
REVENUES								
Intergovernmental	\$ 24,461,452	\$ 19,096,585	\$ 4,444,658	\$ 18,056,818	\$ 6,387,848	\$ 34,874,665	\$ 2,514,645	\$109,836,671
Charges for services	-	-	-	-	-	296,714	-	296,714
Earnings on investments	-	74,849	40,088	-	-	21,830	-	136,767
Miscellaneous	227,157	28	364,629	-	-	1,673,704	241,345	2,506,863
Total revenues	<u>24,688,609</u>	<u>19,171,462</u>	<u>4,849,375</u>	<u>18,056,818</u>	<u>6,387,848</u>	<u>36,866,913</u>	<u>2,755,990</u>	<u>112,777,015</u>
EXPENDITURES								
Administration of justice	-	768,681	5,162,198	-	-	911,755	1,496,239	8,338,873
Parks	-	-	-	-	-	-	26,286	26,286
County administration	-	11,607,401	-	-	-	387,469	900,356	12,895,226
Health and human services	22,732,604	2,571,946	407,845	-	6,286,026	35,291,176	620,394	67,909,991
Capital outlay	1,921,302	12,501,440	1,353,728	-	-	219,308	85,891	16,081,669
Total expenditures	<u>24,653,906</u>	<u>27,449,468</u>	<u>6,923,771</u>	<u>-</u>	<u>6,286,026</u>	<u>36,809,708</u>	<u>3,129,166</u>	<u>105,252,045</u>
Excess of revenues over (under) expenditures	<u>34,703</u>	<u>(8,278,006)</u>	<u>(2,074,396)</u>	<u>18,056,818</u>	<u>101,822</u>	<u>57,205</u>	<u>(373,176)</u>	<u>7,524,970</u>
Transfers in	17,287	8,480,514	1,713,174	-	-	122,845	373,176	10,706,996
Transfers out	(51,990)	(202,508)	(13,024)	(18,056,818)	(101,822)	(3,737)	-	(18,429,899)
Total transfers	<u>(34,703)</u>	<u>8,278,006</u>	<u>1,700,150</u>	<u>(18,056,818)</u>	<u>(101,822)</u>	<u>119,108</u>	<u>373,176</u>	<u>(7,722,903)</u>
Net changes in fund balances	-	-	(374,246)	-	-	176,313	-	(197,933)
Fund balance, beginning	-	-	1,273,423	-	-	1,033,181	-	2,306,604
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 899,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,209,494</u>	<u>\$ -</u>	<u>\$ 2,108,671</u>

HARRIS COUNTY, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
GRANTS - STATE AND LOCAL PROGRAMS
February 28, 2006

	Texas Department of Health	Texas Commission on Environmental Quality	Texas Department of Protective & Regulatory Services	Criminal Justice Division Texas Governor's Office	Texas Department of Transportation	Other State Programs	Local Grants	Total
ASSETS								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,900	\$ 1,234,939	\$ 1,318,839
Investments	-	-	-	-	-	67,642	1,086,023	1,153,665
Accounts receivable	174,388	-	448,264	145,693	147,741	285,980	390,000	1,592,066
Accrued interest receivable	-	-	-	-	-	368	5,905	6,273
Other receivables	169,293	1,451,000	190,322	72,684	55,671	-	170,621	2,109,591
Total assets	<u>\$ 343,681</u>	<u>\$ 1,451,000</u>	<u>\$ 638,586</u>	<u>\$ 218,377</u>	<u>\$ 203,412</u>	<u>\$ 437,890</u>	<u>\$ 2,887,488</u>	<u>\$ 6,180,434</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Vouchers payable	\$ 35,605	\$ -	\$ 166,857	\$ 30,906	\$ 1,437	\$ 9,090	\$ 106,840	\$ 350,735
Accrued payroll and compensated absences	119,895	5,858	52,974	43,210	113,524	15,316	126,250	477,027
Due to other funds	188,181	-	418,755	144,261	88,451	67,121	381,580	1,288,349
Deferred revenue	-	1,445,142	-	-	-	346,363	2,272,818	4,064,323
Total liabilities	<u>343,681</u>	<u>1,451,000</u>	<u>638,586</u>	<u>218,377</u>	<u>203,412</u>	<u>437,890</u>	<u>2,887,488</u>	<u>6,180,434</u>
Fund balances	-	-	-	-	-	-	-	-
Total liabilities and fund balances	<u>\$ 343,681</u>	<u>\$ 1,451,000</u>	<u>\$ 638,586</u>	<u>\$ 218,377</u>	<u>\$ 203,412</u>	<u>\$ 437,890</u>	<u>\$ 2,887,488</u>	<u>\$ 6,180,434</u>

**HARRIS COUNTY, TEXAS
SPECIAL REVENUE FUNDS**

**SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Beginning Cash and Investments	\$ 134,350,140	\$ 134,350,140	\$ 136,618,515	\$ 2,268,375
Revenues and Transfers In:				
Taxes	65,054,113	65,054,113	71,625,436	6,571,323
Charges for Services	6,620,478	6,682,233	9,363,925	2,681,692
Forfeitures	-	7,443	59,558	52,115
Interest	2,173,993	2,174,192	3,673,796	1,499,604
Intergovernmental	1,451,988	3,018,720	5,034,047	2,015,327
Miscellaneous	2,004,693	2,018,735	7,004,440	4,985,705
Other - Sale of Real Property	-	-	691,572	691,572
Other - Transfers In	453,400	36,209,083	35,517,511	(691,572)
Total Revenues and Transfers In	<u>77,758,665</u>	<u>115,164,519</u>	<u>132,970,285</u>	<u>17,805,766</u>
Total Available Resources	<u>\$ 212,108,805</u>	<u>\$ 249,514,659</u>	<u>\$ 269,588,800</u>	<u>\$ 20,074,141</u>

**HARRIS COUNTY, TEXAS
SPECIAL REVENUE FUNDS
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>(Over) Under</u>
Flood Control				
Commercial Paper Series F - Flood Control	\$ 2,148,060	\$ 2,148,060	\$ 1,390,413	\$ 757,647
Flood Control Refunding Series 2003B	-	9,791,844	9,784,600	7,244
Flood Control Refunding Series 2004A	-	11,370,095	11,362,376	7,719
Flood Control General Fund	125,220,192	125,220,192	55,267,258	69,952,934
Total Flood Control	<u>127,368,252</u>	<u>148,530,191</u>	<u>77,804,647</u>	<u>70,725,544</u>
Hotel Occupancy Tax	20,479,948	20,479,948	22,153,351	(1,673,403)
County Law Library	1,964,472	1,964,472	1,258,078	706,394
Deed Restriction Enforcement	5,222	5,222	-	5,222
Appellate Judicial System	615,811	615,811	513,754	102,057
Family Protection District Clerk	328,391	328,391	206,554	121,837
Stormwater Management	594,643	1,681,375	1,111,150	570,225
San Jacinto Wetlands	47,718	47,718	-	47,718
TCEQ - Pollution Control	436,756	930,798	61,294	869,504
Election Services	470,441	470,441	52,439	418,002
Law Enforcement Forfeited Fund				
District Attorney Seized Assets - Treasury	7,467	7,467	-	7,467
District Attorney Seized Assets - Justice	120,196	120,196	41,932	78,264
Constable Seized Assets - Treasury	35,936	35,936	-	35,936
Constable Seized Assets - Justice	155,090	155,090	30,631	124,459
Sheriff Seized Assets - Treasury	5,922,247	5,922,247	390,144	5,532,103
Sheriff Seized Assets - Justice	2,501,969	2,501,969	2,341,752	160,217
Sheriff Seized Assets - State	4,390,106	4,390,106	1,340,004	3,050,102
District Attorney Seized Assets - State	12,434,778	12,434,778	2,944,868	9,489,910
Constable Seized Assets - State	423,979	430,580	164,848	265,732
Commissioner's Court Seized Assets	1,526,320	1,526,320	-	1,526,320
Fire Marshall Seized Assets	-	842	-	842
Total Law Enforcement Forfeited Fund	<u>27,518,088</u>	<u>27,525,531</u>	<u>7,254,179</u>	<u>20,271,352</u>
Alternative Dispute Resolution	1,348,392	1,348,392	884,101	464,291
LEOSE Law Enforcement	950,644	950,644	409,127	541,517
Child Support Enforcement	1,838,430	1,838,430	1,490,237	348,193
Library Donations	551,964	551,964	146,342	405,622
Donation Fund	2,248,883	2,288,775	180,052	2,108,723
Records Management & Preservation	7,628,945	7,628,945	1,401,413	6,227,532
Justice Court Technology	16,610	16,610	-	16,610
District Attorney Administration				
District Attorney Special Investigating	9,664,549	9,664,549	-	9,664,549
District Attorney Hot Check Depository	4,720,926	4,720,926	64,832	4,656,094
Total District Attorney Administration	<u>14,385,475</u>	<u>14,385,475</u>	<u>64,832</u>	<u>14,320,643</u>
County Attorney Administration	-	49,109	5,000	44,109
Restricted Fund				
Community Development Restricted Fund	1,672,145	1,908,023	1,158,622	749,401
County Judge Restricted Fund	2,395	2,395	1,113	1,282
Total Restricted Fund	<u>1,674,540</u>	<u>1,910,418</u>	<u>1,159,735</u>	<u>750,683</u>
TIRZ Affordable Housing				
TIRZ Affordable Housing - Non Interest Bearing	571,715	571,715	-	571,715
TIRZ Affordable Housing - Interest Bearing	1,063,466	1,063,466	494,784	568,682
Total TIRZ Affordable Housing	<u>1,635,181</u>	<u>1,635,181</u>	<u>494,784</u>	<u>1,140,397</u>
Total Special Revenue Fund	<u>\$ 212,108,806</u>	<u>\$ 235,183,841</u>	<u>\$ 116,651,069</u>	<u>\$ 118,532,772</u>



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Debt Service Funds are used to account for payment of principal and interest on County debt. Debt Service Funds are maintained as follows: Roads Debt Service and Flood Control District Debt Service.

HARRIS COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
February 28, 2006

	Roads	Flood Control	Total
ASSETS			
Cash and cash equivalents	\$ 14,080,212	\$ 1,693,628	\$ 15,773,840
Investments	35,900,246	12,638,566	48,538,812
Taxes receivable, net	1,228,578	748,900	1,977,478
Accrued interest receivable	7,559	3,494	11,053
Other receivables	2,139,867	651,309	2,791,176
Due from other funds	680,242	253,261	933,503
Total assets	\$ 54,036,704	\$ 15,989,158	\$ 70,025,862
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ 8,251	\$ -	\$ 8,251
Deferred revenue	1,228,578	748,900	1,977,478
Total liabilities	1,236,829	748,900	1,985,729
 Fund Balances:			
Reserved for debt service	52,799,875	15,240,258	68,040,133
Total fund balances	52,799,875	15,240,258	68,040,133
 Total liabilities and fund balances	\$ 54,036,704	\$ 15,989,158	\$ 70,025,862

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
For The Year Ended February 28, 2006

	<u>Roads</u>	<u>Flood Control</u>	<u>Total</u>
REVENUES			
Taxes - Property	\$ 44,877,605	\$ 12,764,330	\$ 57,641,935
Earnings on investments	976,079	425,606	1,401,685
Miscellaneous	73,975	39,592	113,567
Total revenues	<u>45,927,659</u>	<u>13,229,528</u>	<u>59,157,187</u>
EXPENDITURES			
Debt Service:			
Principal retirement	24,755,000	14,740,000	39,495,000
Bond issuance costs	209,039	-	209,039
Interest and fiscal charges	26,777,022	2,183,436	28,960,458
Total expenditures	<u>51,741,061</u>	<u>16,923,436</u>	<u>68,664,497</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(5,813,402)</u>	<u>(3,693,908)</u>	<u>(9,507,310)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	3,397,488	-	3,397,488
Transfers out	(453,006)	-	(453,006)
Refunding bonds issued	34,420,000	-	34,420,000
Premium on bonds issued	3,011,792	-	3,011,792
Payments to refunding bond escrow agent	(37,101,481)	-	(37,101,481)
Total other financing sources (uses)	<u>3,274,793</u>	<u>-</u>	<u>3,274,793</u>
Net changes in fund balances	(2,538,609)	(3,693,908)	(6,232,517)
Fund balances, beginning	55,338,484	18,934,166	74,272,650
Fund balances, ending	<u>\$ 52,799,875</u>	<u>\$ 15,240,258</u>	<u>\$ 68,040,133</u>

**HARRIS COUNTY, TEXAS
DEBT SERVICE FUNDS**

**SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Beginning Cash and Investments	\$ 70,114,606	\$ 70,114,606	\$ 71,731,150	\$ 1,616,544
Revenues and Transfers In:				
Taxes	65,615,922	65,615,922	56,531,428	(9,084,494)
Interest	1,826,588	1,826,389	1,353,215	(473,174)
Miscellaneous	-	-	64,564	64,564
Other Bond Proceeds	-	34,420,000	34,420,000	-
Other Bond Premium	-	3,011,792	3,011,792	-
Other Transfers In	21,253,885	37,447,320	40,737,900	3,290,580
Total Revenues and Transfers In	<u>88,696,395</u>	<u>142,321,423</u>	<u>136,118,899</u>	<u>(6,202,524)</u>
Total Available Resources	<u>\$ 158,811,001</u>	<u>\$ 212,436,029</u>	<u>\$ 207,850,049</u>	<u>\$ (4,585,980)</u>

**HARRIS COUNTY, TEXAS
DEBT SERVICE FUNDS
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>(Over) Under</u>
Roads				
Road Series 1995	\$ 3,917,886	\$ 3,917,886	\$ 3,360,000	\$ 557,886
Road Series 1996	15,624,355	15,624,355	5,780,764	9,843,591
Road Refunding Series 1993	10,306,179	10,306,179	(60)	10,306,239
Road Refunding Series 2001	27,168,343	63,599,884	51,562,511	12,037,373
Road Refunding Series 2003A	17,254,319	17,254,319	14,104,613	3,149,706
Road Refunding Series 2003B	7,827,850	7,827,850	3,913,925	3,913,925
Road Refunding Series 2004A-D	8,665,750	8,665,750	2,587,875	6,077,875
Unlimited Tax Road Refunding Series 2004	14,677,301	14,677,301	7,429,251	7,248,050
Unlimited Tax Road Refunding Series 2005A	-	38,341,615	37,897,081	444,534
Total Roads	<u>105,441,983</u>	<u>180,215,139</u>	<u>126,635,960</u>	<u>53,579,179</u>
Flood Control				
Flood Control Refunding Series 1993A	1,291,982	1,291,982	-	1,291,982
Flood Control Refunding Series 2002	8,419,207	8,419,207	6,915,355	1,503,852
Flood Control Refunding Series 2003	22,495,390	22,495,390	10,008,081	12,487,309
Total Flood Control	<u>32,206,579</u>	<u>32,206,579</u>	<u>16,923,436</u>	<u>15,283,143</u>
Total Debt Service Funds	<u>\$ 137,648,562</u>	<u>\$ 212,421,718</u>	<u>\$ 143,559,396</u>	<u>\$ 68,862,322</u>

Capital Projects Funds are used to account for bond sale proceeds and other revenues which are used for the construction and acquisition of major capital projects of the County, Flood Control District, and the Sports and Convention Corp.

ROADS – This fund is used for construction and improvement of roads in the County.

PERMANENT IMPROVEMENTS - Permanent Improvement bonds are used for purchase, construction or improvement of office and courts buildings, juvenile facilities, parks and other public facilities.

RELIANT PARK - This fund is used to account for construction and/or improvement of facilities in the Reliant Stadium, Reliant Exposition Center, Reliant Park Central Plant, and Astrodome Complex.

SPORTS AND CONVENTION CORPORATION – This fund is used for construction of the sports and entertainment complex located on property owned by the County.

FLOOD CONTROL DISTRICT – This fund is used to account for construction of flood control and drainage improvements.

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**HARRIS COUNTY, TEXAS
COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
February 28, 2006**

	<u>Roads</u>	<u>Permanent Improvements</u>	<u>Reliant Park</u>	<u>Sports and Convention Corporation</u>	<u>Flood Control</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 39,584,609	\$ 18,815,347	\$ 2,766,551	\$ -	\$ 5,209,296	\$ 66,375,803
Investments	129,121,718	23,933,432	-	-	111,984,954	265,040,104
Accounts receivable, net	2,207,631	3,748,000	-	-	11,244,149	17,199,780
Accrued interest receivable	1,147,039	176,394	-	-	1,018,726	2,342,159
Due from other funds	-	17,016,247	-	-	5,992	17,022,239
Restricted cash and cash equivalents	-	-	-	1,577,957	-	1,577,957
Restricted investments	-	-	-	12,000,000	-	12,000,000
Advances to other funds	-	-	12,000,000	-	-	12,000,000
Total assets	<u>\$ 172,060,997</u>	<u>\$ 63,689,420</u>	<u>\$ 14,766,551</u>	<u>\$ 13,577,957</u>	<u>\$ 129,463,117</u>	<u>\$ 393,558,042</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Vouchers payable	\$ 10,815,751	\$ 13,852,958	\$ 1,200	\$ 646,728	\$ 9,879,247	\$ 35,195,884
Retainages payable	4,243,706	4,014,884	-	-	1,923,996	10,182,586
Due to other funds	-	708,572	-	-	17,246	725,818
Deferred revenue	-	-	-	588,025	151	588,176
Advances from other funds	-	-	-	12,000,000	-	12,000,000
Total liabilities	<u>15,059,457</u>	<u>18,576,414</u>	<u>1,200</u>	<u>13,234,753</u>	<u>11,820,640</u>	<u>58,692,464</u>
Fund Balances:						
Reserved for encumbrances	107,532,145	35,353,687	1,542,975	-	60,223,934	204,652,741
Reserved for advances	-	-	12,000,000	-	-	12,000,000
Unreserved - designated for capital projects	49,469,395	9,759,319	1,222,376	343,204	57,418,543	118,212,837
Total fund balances	<u>157,001,540</u>	<u>45,113,006</u>	<u>14,765,351</u>	<u>343,204</u>	<u>117,642,477</u>	<u>334,865,578</u>
Total liabilities and fund balances	<u>\$ 172,060,997</u>	<u>\$ 63,689,420</u>	<u>\$ 14,766,551</u>	<u>\$ 13,577,957</u>	<u>\$ 129,463,117</u>	<u>\$ 393,558,042</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
For The Year Ended February 28, 2006

	<u>Roads</u>	<u>Permanent Improvements</u>	<u>Reliant Park</u>	<u>Sports and Convention Corporation</u>	<u>Flood Control</u>	<u>Total</u>
REVENUES						
Charges for services	\$ -	\$ 4,500	\$ -	\$ -	\$ -	\$ 4,500
Intergovernmental	29,982,985	3,842,919	-	-	15,410,954	49,236,858
Earnings on investments	5,293,374	1,804,867	79,711	-	3,857,411	11,035,363
Miscellaneous	7,506,045	-	-	870,098	1,516,028	9,892,171
Total revenues	<u>42,782,404</u>	<u>5,652,286</u>	<u>79,711</u>	<u>870,098</u>	<u>20,784,393</u>	<u>70,168,892</u>
EXPENDITURES						
Administration of justice	-	1,463,301	-	-	-	1,463,301
Parks	-	1,263,095	-	-	-	1,263,095
County administration	6,164,051	10,008,596	42,095	2,469,136	-	18,683,878
Health and human services	-	1,160,223	-	-	-	1,160,223
Flood control	-	-	-	-	6,945,223	6,945,223
Roads and bridges	10,736,017	212,678	-	-	-	10,948,695
Capital outlay	90,048,753	88,881,242	13,779	99,860	62,908,136	241,951,770
Interest and fiscal charges	1,214	-	-	-	-	1,214
Total expenditures	<u>106,950,035</u>	<u>102,989,135</u>	<u>55,874</u>	<u>2,568,996</u>	<u>69,853,359</u>	<u>282,417,399</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(64,167,631)</u>	<u>(97,336,849)</u>	<u>23,837</u>	<u>(1,698,898)</u>	<u>(49,068,966)</u>	<u>(212,248,507)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	18,056,818	-	-	-	18,056,818
Transfers out	(3,453,469)	(23,916,316)	(313,210)	-	(3,635,420)	(31,318,415)
Commercial paper issued	89,700,000	54,036,839	-	-	51,845,000	195,581,839
Sale of capital assets	-	357,142	-	-	-	357,142
Total other financing sources (uses)	<u>86,246,531</u>	<u>48,534,483</u>	<u>(313,210)</u>	<u>-</u>	<u>48,209,580</u>	<u>182,677,384</u>
Net change in fund balances	22,078,900	(48,802,366)	(289,373)	(1,698,898)	(859,386)	(29,571,123)
Fund balances, beginning	134,922,640	93,915,372	15,054,724	2,042,102	118,501,863	364,436,701
Fund balances, ending	<u>\$ 157,001,540</u>	<u>\$ 45,113,006</u>	<u>\$ 14,765,351</u>	<u>\$ 343,204</u>	<u>\$ 117,642,477</u>	<u>\$ 334,865,578</u>

**HARRIS COUNTY, TEXAS
CAPITAL PROJECTS FUNDS**

**SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Beginning Cash and Investments	\$ 374,275,216	\$ 374,275,216	\$ 372,352,341	\$ (1,922,875)
Revenues and Transfers In:				
Interest	1,552,809	9,458,166	10,880,302	1,422,136
Miscellaneous	-	5,520,613	9,447,133	3,926,520
User Fees	4,950	4,950	6,000	1,050
Intergovernmental	8,000,000	33,299,929	44,636,859	11,336,930
Other Proceeds Comm Paper	-	-	195,602,839	195,602,839
Other Transfers In	-	-	18,056,818	18,056,818
Total Revenues and Transfers In	<u>9,557,759</u>	<u>48,283,658</u>	<u>278,629,951</u>	<u>230,346,293</u>
Total Available Resources	<u>\$ 383,832,975</u>	<u>\$ 422,558,874</u>	<u>\$ 650,982,292</u>	<u>\$ 228,423,418</u>

**HARRIS COUNTY, TEXAS
CAPITAL PROJECTS FUNDS
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2006

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>(Over) Under</u>
Roads				
METRO Street Improvement	\$ 6,216,834	\$ 6,398,795	\$ 26,953	\$ 6,371,842
1975 Road Bonds Construction	1,265,611	1,295,377	427,169	868,208
Road Capital Projects	27,615,727	48,958,806	11,660,040	37,298,766
METRO Designated Projects	10,071,659	22,890,570	4,345,253	18,545,317
Road Refunding 2004B	100,181,260	103,273,886	7,518,909	95,754,977
Road Series 1993 Construction	580,326	591,330	370,010	221,320
Road 1996 Construction	3,291,311	3,363,199	904,180	2,459,019
Commercial Paper Series C	214,636,388	214,710,437	77,359,215	137,351,222
Total Roads	<u>363,859,116</u>	<u>401,482,400</u>	<u>102,611,729</u>	<u>298,870,671</u>
Permanent Improvements				
Buildings/Parks/Library Projects	691,054	746,122	128,214	617,908
1982 Park Bonds Construction	855,807	888,652	32,845	855,807
CO Series 2001 Construction	20,224,331	20,742,757	1,149,916	19,592,841
Permanent Improvements 2002 Construction	24,300,612	24,436,348	20,858,561	3,577,787
Permanent Improvements 1994 Construction	1,308,961	1,350,200	50,580	1,299,620
CO Series 1998 Baker Street Jail	72,565	75,047	2,158	72,889
CO Series 1994 Construction	10,501,178	10,716,229	3,490,279	7,225,950
Commercial Paper Series B	25,075,758	25,075,926	11,355,682	13,720,244
Commercial Paper Series A-1	61,489,681	61,583,325	27,409,458	34,173,867
Commercial Paper Series New D	177,131,713	175,318,802	57,610,633	117,708,169
Total Permanent Improvements	<u>321,651,660</u>	<u>320,933,408</u>	<u>122,088,326</u>	<u>198,845,082</u>
Reliant Park				
1988T Astrodome Improvements	337,608	348,280	10,672	337,608
Commercial Paper Series D-1	922,340	941,123	53,028	888,095
Commercial Paper Series D	909,823	950,079	308,669	641,410
Total Reliant Park	<u>2,169,771</u>	<u>2,239,482</u>	<u>372,369</u>	<u>1,867,113</u>
Flood Control				
Regional Flood Control Projects	22,179,196	22,938,887	3,429,997	19,508,890
Flood Control Capital Projects	12,753,647	12,753,647	1,301,350	11,452,297
FC Bonds 2004A-Construction	100,181,686	103,277,172	14,548,482	88,728,690
Commercial Paper - Flood Control	173,544,821	173,572,242	51,469,471	122,102,771
Total Flood Control	<u>308,659,350</u>	<u>312,541,948</u>	<u>70,749,300</u>	<u>241,792,648</u>
Total Capital Projects Funds	<u>\$ 996,339,897</u>	<u>\$ 1,037,197,238</u>	<u>\$ 295,821,724</u>	<u>\$ 741,375,514</u>

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Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes

SUBSCRIBER ACCESS - This fund is used to account for the use of computer access to certain District Clerk and County Clerk records. The information is available only to qualified users, and all costs associated with the program are passed on to the users through user charges.

PARKING FACILITIES - This fund is used to account for the acquisition, operation and maintenance of parking facilities. These facilities are intended to be financed primarily through user charges.

SHERIFF'S COMMISSARY FUND - This fund is used to account for the operation of a commissary for jail inmates. In addition, the fund is used to account for inmate monies held in a trustee capacity, from which inmates can make commissary purchases and from which inmates are required to reimburse the County for medical services provided to them. The Commissary is funded primarily through profits on sales of commissary items to inmates.

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS
February 28, 2006

	<u>Subscriber Access</u>	<u>Parking Facilities</u>	<u>Sheriff's Commissary Fund</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 261,985	\$ 1,378,770	\$ 7,763,427	\$ 9,404,182
Investments	221,715	1,155,544	-	1,377,259
Accounts receivable, net	57,271	31,516	-	88,787
Accrued interest receivable	1,205	6,282	-	7,487
Due from other funds	-	-	749,218	749,218
Inventories	-	-	173,471	173,471
Total current assets	<u>542,176</u>	<u>2,572,112</u>	<u>8,686,116</u>	<u>11,800,404</u>
Noncurrent assets:				
Land	-	3,963,598	-	3,963,598
Buildings	-	21,154,443	-	21,154,443
Equipment	930,998	-	2,084,212	3,015,210
Accumulated depreciation	(809,977)	(4,945,380)	(1,965,784)	(7,721,141)
Total noncurrent assets	<u>121,021</u>	<u>20,172,661</u>	<u>118,428</u>	<u>20,412,110</u>
Total assets	<u>663,197</u>	<u>22,744,773</u>	<u>8,804,544</u>	<u>32,212,514</u>
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Vouchers payable	15,532	50,973	279,894	346,399
Accrued payroll and compensated absences	4,841	-	-	4,841
Customer deposits	189,024	-	-	189,024
Total current liabilities	<u>209,397</u>	<u>50,973</u>	<u>279,894</u>	<u>540,264</u>
Noncurrent liabilities:				
Noncurrent portion of compensatory time payable	203	-	-	203
Total noncurrent liabilities	<u>203</u>	<u>-</u>	<u>-</u>	<u>203</u>
Total Liabilities	<u>209,600</u>	<u>50,973</u>	<u>279,894</u>	<u>540,467</u>
NET ASSETS				
Invested in capital assets, net of related debt	121,021	20,172,661	118,428	20,412,110
Unrestricted	332,576	2,521,139	8,406,222	11,259,937
Total net assets	<u>\$ 453,597</u>	<u>\$22,693,800</u>	<u>\$ 8,524,650</u>	<u>\$ 31,672,047</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS
For The Year Ended February 28, 2006

	<u>Subscriber Access</u>	<u>Parking Facilities</u>	<u>Sheriff's Commissary Fund</u>	<u>Total</u>
OPERATING REVENUES				
Sales	\$ 360	\$ -	\$ 6,944,801	\$ 6,945,161
User fees	199,035	409,224	-	608,259
Miscellaneous	195,413	-	15,969	211,382
Total operating revenues	<u>394,808</u>	<u>409,224</u>	<u>6,960,770</u>	<u>7,764,802</u>
OPERATING EXPENSES				
Salaries	44,889	-	600,000	644,889
Materials and supplies	709	-	1,714,925	1,715,634
Services and fees	143,602	43,485	584,357	771,444
Utilities	-	291,872	-	291,872
Cost of goods sold	-	-	3,292,901	3,292,901
Depreciation	78,119	450,586	59,064	587,769
Total operating expenses	<u>267,319</u>	<u>785,943</u>	<u>6,251,247</u>	<u>7,304,509</u>
Operating Income (Loss)	<u>127,489</u>	<u>(376,719)</u>	<u>709,523</u>	<u>460,293</u>
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	13,234	87,287	267,758	368,279
Total nonoperating revenues (expenses)	<u>13,234</u>	<u>87,287</u>	<u>267,758</u>	<u>368,279</u>
Income (loss) before transfers	140,723	(289,432)	977,281	828,572
Transfers out	-	-	(43,468)	(43,468)
Total contributions and transfers	<u>-</u>	<u>-</u>	<u>(43,468)</u>	<u>(43,468)</u>
Change in net assets	140,723	(289,432)	933,813	785,104
Net assets, beginning	312,874	22,983,232	7,590,837	30,886,943
Net assets, ending	<u>\$ 453,597</u>	<u>\$ 22,693,800</u>	<u>\$ 8,524,650</u>	<u>\$ 31,672,047</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
For The Year Ended February 28, 2006

	<u>Subscriber Access</u>	<u>Parking Facilities</u>	<u>Sheriff's Commissary Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 424,792	\$ 404,844	\$ 6,562,025	\$ 7,391,661
Payments to employees	(44,447)	-	(600,000)	(644,447)
Payments to vendors	(130,279)	(317,628)	(5,609,933)	(6,057,840)
Net cash provided by operating activities	<u>250,066</u>	<u>87,216</u>	<u>352,092</u>	<u>689,374</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	-	-	(43,468)	(43,468)
Net cash used for noncapital financing activities	<u>-</u>	<u>-</u>	<u>(43,468)</u>	<u>(43,468)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital asset	-	-	(133,638)	(133,638)
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>(133,638)</u>	<u>(133,638)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(222,462)	(1,163,186)	-	(1,385,648)
Proceeds from sales and maturities of investments	89,978	919,979	-	1,009,957
Interest received	12,414	84,939	267,758	365,111
Net cash provided by (used for) investing activities	<u>(120,070)</u>	<u>(158,268)</u>	<u>267,758</u>	<u>(10,580)</u>
Net change in cash and cash equivalents	129,996	(71,052)	442,744	501,688
Cash and cash equivalents, beginning	131,989	1,449,822	7,320,683	8,902,494
Cash and cash equivalents, ending	<u>\$ 261,985</u>	<u>\$ 1,378,770</u>	<u>\$ 7,763,427</u>	<u>\$ 9,404,182</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating income (loss)	\$ 127,489	\$ (376,719)	\$ 709,523	\$ 460,293
Adjustment to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	78,119	450,586	59,064	587,769
Change in current assets and liabilities:				
Receivables, net	27,929	3,193	-	31,122
Prepays and other assets	-	-	(398,745)	(398,745)
Inventories	-	-	(2,959)	(2,959)
Vouchers payable and accrued liabilities	14,032	17,729	(14,791)	16,970
Other liabilities	2,055	(7,573)	-	(5,518)
Compensatory time payable	442	-	-	442
Net cash provided by operating activities	<u>\$ 250,066</u>	<u>\$ 87,216</u>	<u>\$ 352,092</u>	<u>\$ 689,374</u>
Non-Cash Investing Activities:				
Increase in the fair value of investments	\$ 494	\$ 5,784	\$ 23,794	\$ 30,072



Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

VEHICLE MAINTENANCE - This fund is used to account for the operation of the County's Vehicle Maintenance Department which is to be financed through user charges.

AUCTION PROCEEDS - This fund is used to account for the operation of the County's sale of surplus items which is to be financed through user charges.

RADIO OPERATIONS - This fund is used to account for the operation of County radios which is to be financed through user charges.

INMATE INDUSTRIES - This fund is used to account for the operation of the printing shop provided by inmates to County departments which is to be financed by user charges.

RISK MANAGEMENT - This fund is used to account for the County's workers' compensation and other risk management activities. Workers' Compensation includes medical and indemnity payments as required by law for on-the-job related injuries. Other risk management activities include coordination of all insurance policies and management of self-insured risk.

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HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
February 28, 2006

	<u>Vehicle Maintenance</u>	<u>Auction Proceeds</u>	<u>Radio Operations</u>	<u>Inmate Industries</u>	<u>Risk Management</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 7,002,807	\$ 76,348	\$ 296,810	\$ 958,256	\$ 3,341,856	\$ 11,676,077
Investments	6,429,710	63,884	291,235	806,062	24,049,928	31,640,819
Receivables:						
Accounts	43,345	2,120	433,720	-	348	479,533
Accrued interest	34,958	347	1,583	4,382	138,145	179,415
Other	148	-	-	4,904	4,200,024	4,205,076
Inventories	1,096,107	-	933,126	-	-	2,029,233
Prepays and other assets	-	-	-	9,441	1,116,321	1,125,762
Due from other funds	29,553	-	6,575	-	2,013,189	2,049,317
Land	250,000	-	-	-	-	250,000
Buildings	1,468,568	-	-	-	-	1,468,568
Equipment	30,739,259	-	1,751,356	510,636	-	33,001,251
Accumulated depreciation	(20,794,383)	-	(1,516,448)	(221,019)	-	(22,531,850)
Total assets	<u>26,300,072</u>	<u>142,699</u>	<u>2,197,957</u>	<u>2,072,662</u>	<u>34,859,811</u>	<u>65,573,201</u>
LIABILITIES						
Vouchers payable	1,017,940	31,796	163,909	69,602	440,318	1,723,565
Accrued payroll and compensated absences	270,028	-	189,423	-	318,983	778,434
Surplus auction payable	-	69,817	-	-	-	69,817
Estimated outstanding claims	-	-	-	-	16,094,013	16,094,013
Incurred but not reported claims	-	-	-	-	10,548,641	10,548,641
Judgements payable	-	-	-	-	1,900	1,900
Customer deposits	-	41,086	-	-	-	41,086
Deferred revenue	-	-	765,234	-	259,724	1,024,958
Long-term portion of compensatory time payable	22,248	-	11,883	-	15,405	49,536
Total liabilities	<u>1,310,216</u>	<u>142,699</u>	<u>1,130,449</u>	<u>69,602</u>	<u>27,678,984</u>	<u>30,331,950</u>
NET ASSETS						
Invested in capital assets, net of related debt	11,663,444	-	234,908	289,617	-	12,187,969
Unrestricted	13,326,412	-	832,600	1,713,443	7,180,827	23,053,282
Total net assets	<u>\$ 24,989,856</u>	<u>\$ -</u>	<u>\$ 1,067,508</u>	<u>\$ 2,003,060</u>	<u>\$ 7,180,827</u>	<u>\$ 35,241,251</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - INTERNAL SERVICE FUNDS
For The Year Ended February 28, 2006

	Vehicle Maintenance	Auction Proceeds	Radio Operations	Inmate Industries	Risk Management	Total
OPERATING REVENUES						
Lease revenue	\$ -	\$ -	\$ 116,403	\$ -	\$ -	\$ 116,403
Charges to departments	15,012,562	-	402,132	494,488	11,335,496	27,244,678
User fees	6,413,898	-	996,414	-	-	7,410,312
Total operating revenues	<u>21,426,460</u>	<u>-</u>	<u>1,514,949</u>	<u>494,488</u>	<u>11,335,496</u>	<u>34,771,393</u>
OPERATING EXPENSES						
Salaries	2,410,228	-	1,922,162	-	3,320,464	7,652,854
Materials and supplies	98,610	-	133,534	164,989	243,348	640,481
Services and fees	2,401,139	-	1,023,117	143,020	2,158,286	5,725,562
Utilities	90,967	-	427,385	-	238	518,590
Transportation and travel	3,983,447	-	-	-	23,009	4,006,456
Incurred claims	-	-	-	-	5,152,141	5,152,141
Estimated claims	-	-	-	-	(1,192,343)	(1,192,343)
Cost of goods sold	5,683,910	-	226,013	-	-	5,909,923
Depreciation	5,277,315	-	121,039	28,270	-	5,426,624
Total operating expenses	<u>19,945,616</u>	<u>-</u>	<u>3,853,250</u>	<u>336,279</u>	<u>9,705,143</u>	<u>33,840,288</u>
Operating income (loss)	<u>1,480,844</u>	<u>-</u>	<u>(2,338,301)</u>	<u>158,209</u>	<u>1,630,353</u>	<u>931,105</u>
NONOPERATING REVENUES (EXPENSES)						
Earnings on investments	351,670	-	1,157	49,165	785,096	1,187,088
Interest expense	-	-	(5,313)	-	-	(5,313)
Gain (loss) on sale of capital assets	(6,384)	-	-	-	-	(6,384)
Other nonoperating revenues (expenses)	40,411	-	-	-	-	40,411
Total nonoperating revenues (expenses)	<u>385,697</u>	<u>-</u>	<u>(4,156)</u>	<u>49,165</u>	<u>785,096</u>	<u>1,215,802</u>
Income (loss) before transfers	<u>1,866,541</u>	<u>-</u>	<u>(2,342,457)</u>	<u>207,374</u>	<u>2,415,449</u>	<u>2,146,907</u>
Transfers in	43,468	-	2,815,000	-	4,273,927	7,132,395
Transfers out	(241,017)	-	-	-	-	(241,017)
Total transfers	<u>(197,549)</u>	<u>-</u>	<u>2,815,000</u>	<u>-</u>	<u>4,273,927</u>	<u>6,891,378</u>
Change in net assets	1,668,992	-	472,543	207,374	6,689,376	9,038,285
Net assets, beginning	23,320,864	-	594,965	1,795,686	491,451	26,202,966
Net assets, ending	<u>\$ 24,989,856</u>	<u>\$ -</u>	<u>\$ 1,067,508</u>	<u>\$ 2,003,060</u>	<u>\$ 7,180,827</u>	<u>\$ 35,241,251</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
For The Year Ended February 28, 2006

	Vehicle Maintenance	Auction Proceeds	Radio Operations	Inmate Industries	Risk Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 21,386,507	\$ -	\$ 1,520,258	\$ 493,128	\$ 11,501,644	\$ 34,901,537
Payments to employees	(2,397,337)	-	(1,906,295)	-	(3,314,116)	(7,617,748)
Payments to vendors	(12,519,973)	33,551	(1,982,666)	(264,524)	(2,514,981)	(17,248,593)
Claims paid	-	-	-	-	(5,981,485)	(5,981,485)
Other receipts	40,411	-	-	-	-	40,411
Other payments	-	-	-	-	-	-
Net cash provided by (used for) operating activities	<u>6,509,608</u>	<u>33,551</u>	<u>(2,368,703)</u>	<u>228,604</u>	<u>(308,938)</u>	<u>4,094,122</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from other funds	43,468	-	2,815,000	-	4,273,927	7,132,395
Transfers to other funds	(241,017)	-	-	-	-	(241,017)
Net cash provided by (used for) noncapital financing activities	<u>(197,549)</u>	<u>-</u>	<u>2,815,000</u>	<u>-</u>	<u>4,273,927</u>	<u>6,891,378</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchases of capital assets	(4,549,827)	-	-	(115,964)	-	(4,665,791)
Net cash used for capital and related financing activities	<u>(4,549,827)</u>	<u>-</u>	<u>-</u>	<u>(115,964)</u>	<u>-</u>	<u>(4,665,791)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(6,460,921)	(63,884)	(291,235)	(809,388)	(31,622,859)	(39,248,287)
Proceeds from sales and maturities of investments	3,757,040	-	-	400,310	25,665,969	29,823,319
Interest received	332,777	(347)	(5,739)	46,495	700,651	1,073,837
Net cash used for investing activities	<u>(2,371,104)</u>	<u>(64,231)</u>	<u>(296,974)</u>	<u>(362,583)</u>	<u>(5,256,239)</u>	<u>(8,351,131)</u>
Net change in cash and cash equivalents	(608,872)	(30,680)	149,323	(249,943)	(1,291,250)	(2,031,422)
Cash and cash equivalents, beginning	7,611,679	107,028	147,487	1,208,199	4,633,106	13,707,499
Cash and cash equivalents, ending	<u>\$ 7,002,807</u>	<u>\$ 76,348</u>	<u>\$ 296,810</u>	<u>\$ 958,256</u>	<u>\$ 3,341,856</u>	<u>\$ 11,676,077</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:						
Operating income (loss)	\$ 1,480,844	\$ -	\$ (2,338,301)	\$ 158,209	\$ 1,630,353	\$ 931,105
Adjustments to reconcile operating income to net cash						
Provided by operating activities:						
Depreciation expense	5,277,315	-	121,039	28,270	-	5,426,624
Other non-operating revenues (expenses)	40,411	-	-	-	-	40,411
Change in assets and liabilities:						
Receivables, net	(40,021)	-	(191,067)	(1,360)	(49,649)	(282,097)
Prepays and other assets	68	-	(5,306)	(9,441)	(223,090)	(237,769)
Inventories	(177,453)	-	(164,254)	-	-	(341,707)
Vouchers payable and accrued liabilities	(75,357)	33,551	(8,364)	52,926	(1,934,524)	(1,931,768)
Judgements payable	-	-	-	-	1,900	1,900
Deferred revenue	-	-	201,683	-	259,724	461,407
Compensatory time payable	3,801	-	15,867	-	6,348	26,016
Net cash provided by (used for) operating activities	<u>\$ 6,509,608</u>	<u>\$ 33,551</u>	<u>\$ (2,368,703)</u>	<u>\$ 228,604</u>	<u>\$ (308,938)</u>	<u>\$ 4,094,122</u>
Non-Cash Investing Activities:						
Increase (decrease) in the fair value of investments	\$ 22,483	\$ -	\$ (193)	\$ 2,316	\$ (51,773)	\$ (27,167)



AGENCY FUNDS:

DISTRICT CLERK REGISTRY - Established for the purpose of accounting for moneys held in the custody of the District Clerk under orders of various Harris County courts.

COUNTY CLERK REGISTRY - Established for the purpose of accounting for moneys held in the custody of the County Clerk under orders of various Harris County courts.

OFFICERS' FEES - This fund is used as a clearing fund for fees, fines and court costs collected by Sheriff, County Clerk, District Clerk, and/or other fee officers of the County.

BAIL SECURITY - Assets pledged by Bail Bond licensees as collateral are accounted for in this fund.

CPS BENEFICIARY TRUST - Established for the purpose of accounting for moneys held in the custody of the County for the benefit of children residing in Harris County under the conservatorship of the Texas Department of Protective and Regulatory Services.

TAX COLLECTOR'S - Tax collections are deposited in the Tax Collector's agency fund pending audit and distribution to the County or other taxing jurisdiction. Receipts from the sale of beer licenses are deposited in this fund pending approval by the State Alcoholic Beverage Commission.

INMATE PROPERTY – This fund is used to account for jail inmates’ properties held in the custody of Harris County

TREASURER ESCHEAT - This fund is used to account for unclaimed property \$100 or less held in the custody of Harris County.

JUVENILE RESTITUTION - This fund is used to account for collection and distribution of monies for Harris County Juvenile Probation Department clients ordered by courts to make victim restitution payments.

FORFEITED RESTITUTION - This fund is used to account for collection and distribution of monies for Harris County District Attorney’s office to make consumer fraud restitution payments.

CUSTODIAL - This fund is used to account for various custodial bank accounts activities.

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HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
February 28, 2006

	<u>District Clerk Registry</u>	<u>County Clerk Registry</u>	<u>Officers' Fees</u>	<u>Bail Security</u>	<u>CPS Beneficiary Trust</u>	<u>Tax Collector's</u>
ASSETS						
Cash and cash equivalents	\$ 21,507,441	\$ 16,213,395	\$ 20,418,232	\$ 10,438,669	\$ 249,203	\$ 196,904,720
Investments	57,494,197	83,525,119	22,590,418	1,781,229	-	-
Accounts receivable	-	-	43,522	-	-	-
Other receivables	-	-	1,323,773	-	-	-
Accrued interest receivable	478,327	736,937	122,822	9,684	-	-
Due from other funds	-	-	12,984	-	-	-
Total assets	<u>\$ 79,479,965</u>	<u>\$ 100,475,451</u>	<u>\$ 44,511,751</u>	<u>\$ 12,229,582</u>	<u>\$ 249,203</u>	<u>\$ 196,904,720</u>
LIABILITIES						
Vouchers payable	\$ -	\$ -	\$ 173,126	\$ -	\$ -	\$ -
Due to other funds	-	-	15,203,514	-	-	29,916,958
Held for others	79,479,965	100,475,451	29,135,111	12,229,582	249,203	166,987,762
Total liabilities	<u>\$ 79,479,965</u>	<u>\$ 100,475,451</u>	<u>\$ 44,511,751</u>	<u>\$ 12,229,582</u>	<u>\$ 249,203</u>	<u>\$ 196,904,720</u>

Inmate Property	Treasurer Escheat	Juvenile Restitution	Forfeited Restitution	Corps of Engineers Escrow	Custodial	Total Agency Funds
\$ 1,724,197	\$ 806,765	\$ 34,453	\$ 107	\$ 1,537,640	\$ 1,416,103	\$ 271,250,925
-	-	-	-	-	-	165,390,963
36,130	-	-	-	-	-	79,652
-	-	-	-	-	-	1,323,773
-	-	-	-	-	-	1,347,770
-	-	-	-	-	-	12,984
<u>\$ 1,760,327</u>	<u>\$ 806,765</u>	<u>\$ 34,453</u>	<u>\$ 107</u>	<u>\$ 1,537,640</u>	<u>\$ 1,416,103</u>	<u>\$ 439,406,067</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 173,126
749,218	-	-	-	-	-	45,869,690
<u>1,011,109</u>	<u>806,765</u>	<u>34,453</u>	<u>107</u>	<u>1,537,640</u>	<u>1,416,103</u>	<u>393,363,251</u>
<u>\$ 1,760,327</u>	<u>\$ 806,765</u>	<u>\$ 34,453</u>	<u>\$ 107</u>	<u>\$ 1,537,640</u>	<u>\$ 1,416,103</u>	<u>\$ 439,406,067</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
For The Year Ended February 28, 2006

	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance February 28, 2006</u>
District Clerk Registry				
ASSETS				
Cash and cash equivalents	\$ 4,224,752	\$ 182,600,792	\$ 165,318,103	\$ 21,507,441
Investments	77,801,257	43,461,561	63,768,621	57,494,197
Accrued interest receivable	240,623	478,327	240,623	478,327
Total Assets	<u>\$ 82,266,632</u>	<u>\$ 226,540,680</u>	<u>\$ 229,327,347</u>	<u>\$ 79,479,965</u>
LIABILITIES				
Held for others	<u>\$ 82,266,632</u>	<u>\$ 23,664,456</u>	<u>\$ 26,451,123</u>	<u>\$ 79,479,965</u>
Total Liabilities	<u>\$ 82,266,632</u>	<u>\$ 23,664,456</u>	<u>\$ 26,451,123</u>	<u>\$ 79,479,965</u>
County Clerk Registry				
ASSETS				
Cash and cash equivalents	\$ 5,141,610	\$ 523,460,811	\$ 512,389,026	\$ 16,213,395
Investments	63,959,706	80,540,812	60,975,399	83,525,119
Accrued interest receivable	208,702	736,937	208,702	736,937
Total Assets	<u>\$ 69,310,018</u>	<u>\$ 604,738,560</u>	<u>\$ 573,573,127</u>	<u>\$ 100,475,451</u>
LIABILITIES				
Held for others	<u>\$ 69,310,018</u>	<u>\$ 236,850,581</u>	<u>\$ 205,685,148</u>	<u>\$ 100,475,451</u>
Total Liabilities	<u>\$ 69,310,018</u>	<u>\$ 236,850,581</u>	<u>\$ 205,685,148</u>	<u>\$ 100,475,451</u>
Officers' Fee				
ASSETS				
Cash and cash equivalents	\$ 16,550,218	\$ 210,920,546	\$ 207,052,532	\$ 20,418,232
Investments	18,477,552	22,590,418	18,477,552	22,590,418
Accounts receivable	23,412	86,065	65,955	43,522
Other receivable	-	1,323,773	-	1,323,773
Accrued interest receivable	-	412,208	289,386	122,822
Due from other funds	-	12,984	-	12,984
Total Assets	<u>\$ 35,051,182</u>	<u>\$ 235,345,994</u>	<u>\$ 225,885,425</u>	<u>\$ 44,511,751</u>
LIABILITIES				
Vouchers payable	\$ 22,873	\$ 54,272,530	\$ 54,122,277	\$ 173,126
Due to other funds	308,838	15,210,820	316,144	15,203,514
Held for others	34,719,471	764,806,315	770,390,675	29,135,111
Total Liabilities	<u>\$ 35,051,182</u>	<u>\$ 834,289,665</u>	<u>\$ 824,829,096</u>	<u>\$ 44,511,751</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
For The Year Ended February 28, 2006

	<u>Balance</u> <u>March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>February 28, 2006</u>
Bail Security				
ASSETS				
Cash and cash equivalents	\$ 10,059,920	\$ 7,461,182	\$ 7,082,433	\$ 10,438,669
Investments	1,340,278	1,792,457	1,351,506	1,781,229
Accrued interest receivable	5,778	17,377	13,471	9,684
Total Assets	<u>\$ 11,405,976</u>	<u>\$ 9,271,016</u>	<u>\$ 8,447,410</u>	<u>\$ 12,229,582</u>
LIABILITIES				
Held for others	<u>\$ 11,405,976</u>	<u>\$ 2,131,843</u>	<u>\$ 1,308,237</u>	<u>\$ 12,229,582</u>
Total Liabilities	<u>\$ 11,405,976</u>	<u>\$ 2,131,843</u>	<u>\$ 1,308,237</u>	<u>\$ 12,229,582</u>
CPS Beneficiary Trust				
ASSETS				
Cash and cash equivalents	\$ 240,157	\$ 1,570,244	\$ 1,561,198	\$ 249,203
Total Assets	<u>\$ 240,157</u>	<u>\$ 1,570,244</u>	<u>\$ 1,561,198</u>	<u>\$ 249,203</u>
LIABILITIES				
Held for others	<u>\$ 240,157</u>	<u>\$ 3,951,560</u>	<u>\$ 3,942,514</u>	<u>\$ 249,203</u>
Total Liabilities	<u>\$ 240,157</u>	<u>\$ 3,951,560</u>	<u>\$ 3,942,514</u>	<u>\$ 249,203</u>
Tax Collector's				
ASSETS				
Cash and cash equivalents	\$ 126,192,031	\$ 4,750,173,895	\$ 4,679,461,206	\$ 196,904,720
Investments	-	17,768,206	17,768,206	-
Due from other funds	-	27,311	27,311	-
Total Assets	<u>\$ 126,192,031</u>	<u>\$ 4,767,969,412</u>	<u>\$ 4,697,256,723</u>	<u>\$ 196,904,720</u>
LIABILITIES				
Due to other funds	\$ -	\$ 40,731,838	\$ 10,814,880	\$ 29,916,958
Held for others	<u>126,192,031</u>	<u>4,100,529,843</u>	<u>4,059,734,112</u>	<u>166,987,762</u>
Total Liabilities	<u>\$ 126,192,031</u>	<u>\$ 4,141,261,681</u>	<u>\$ 4,070,548,992</u>	<u>\$ 196,904,720</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

For The Year Ended February 28, 2006

	<u>Balance</u> <u>March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>February 28, 2006</u>
<u>Inmate Property</u>				
ASSETS				
Cash and cash equivalents	\$ 1,123,867	\$ 24,808,863	\$ 24,208,533	\$ 1,724,197
Accounts receivable	36,130	-	-	36,130
Total Assets	<u>1,159,997</u>	<u>\$ 24,808,863</u>	<u>\$ 24,208,533</u>	<u>\$ 1,760,327</u>
LIABILITIES				
Due to other funds	\$ 350,473	\$ 930,409	\$ 531,664	\$ 749,218
Held for others	809,524	16,065,730	15,864,145	1,011,109
Total Liabilities	<u>\$ 1,159,997</u>	<u>\$ 16,996,139</u>	<u>\$ 16,395,809</u>	<u>\$ 1,760,327</u>
<u>Treasurer Escheat</u>				
ASSETS				
Cash and cash equivalents	\$ 688,416	\$ 119,075	\$ 726	\$ 806,765
Total Assets	<u>\$ 688,416</u>	<u>\$ 119,075</u>	<u>\$ 726</u>	<u>\$ 806,765</u>
LIABILITIES				
Held for others	\$ 688,416	\$ 120,837	\$ 2,488	\$ 806,765
Total Liabilities	<u>\$ 688,416</u>	<u>\$ 120,837</u>	<u>\$ 2,488</u>	<u>\$ 806,765</u>
<u>Juvenile Restitution</u>				
ASSETS				
Cash and cash equivalents	\$ -	\$ 188,895	\$ 154,442	\$ 34,453
Total Assets	<u>\$ -</u>	<u>\$ 188,895</u>	<u>\$ 154,442</u>	<u>\$ 34,453</u>
LIABILITIES				
Held for others	\$ -	\$ 188,895	\$ 154,442	\$ 34,453
Total Liabilities	<u>\$ -</u>	<u>\$ 188,895</u>	<u>\$ 154,442</u>	<u>\$ 34,453</u>
<u>Forfeited Restitution</u>				
ASSETS				
Cash and cash equivalents	\$ -	\$ 2,497,659	\$ 2,497,552	\$ 107
Total Assets	<u>\$ -</u>	<u>\$ 2,497,659</u>	<u>\$ 2,497,552</u>	<u>\$ 107</u>
LIABILITIES				
Held for others	\$ -	\$ 2,497,659	\$ 2,497,552	\$ 107
Total Liabilities	<u>\$ -</u>	<u>\$ 2,497,659</u>	<u>\$ 2,497,552</u>	<u>\$ 107</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
For The Year Ended February 28, 2006

	<u>Balance</u> <u>March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>February 28, 2006</u>
<u>Corps of Engineers Escrow</u>				
ASSETS				
Cash and cash equivalents	\$ 2,445,640	\$ 72,143	\$ 980,143	\$ 1,537,640
Total Assets	<u>\$ 2,445,640</u>	<u>\$ 72,143</u>	<u>\$ 980,143</u>	<u>\$ 1,537,640</u>
LIABILITIES				
Held for others	\$ 2,445,640	\$ 72,143	\$ 980,143	\$ 1,537,640
Total Liabilities	<u>\$ 2,445,640</u>	<u>\$ 72,143</u>	<u>\$ 980,143</u>	<u>\$ 1,537,640</u>
<u>Custodial</u>				
ASSETS				
Cash and cash equivalents	\$ 971,760	\$ 14,104,397	\$ 13,660,054	\$ 1,416,103
Total Assets	<u>\$ 971,760</u>	<u>\$ 14,104,397</u>	<u>\$ 13,660,054</u>	<u>\$ 1,416,103</u>
LIABILITIES				
Held for others	\$ 971,760	\$ 14,102,876	\$ 13,658,533	\$ 1,416,103
Total Liabilities	<u>\$ 971,760</u>	<u>\$ 14,102,876</u>	<u>\$ 13,658,533</u>	<u>\$ 1,416,103</u>
<u>Total Agency Funds</u>				
ASSETS				
Cash and cash equivalents	\$ 167,638,371	\$ 5,717,978,502	\$ 5,614,365,948	\$ 271,250,925
Investments	161,578,793	166,153,454	162,341,284	165,390,963
Accounts receivable	59,542	86,065	65,955	79,652
Other receivable	-	1,323,773	-	1,323,773
Accrued interest receivable	455,103	1,644,849	752,182	1,347,770
Due from other funds	-	40,295	27,311	12,984
Total Assets	<u>\$ 329,731,809</u>	<u>\$ 5,887,226,938</u>	<u>\$ 5,777,552,680</u>	<u>\$ 439,406,067</u>
LIABILITIES				
Vouchers payable	\$ 22,873	\$ 54,272,530	\$ 54,122,277	\$ 173,126
Due to other funds	659,311	56,873,067	11,662,688	45,869,690
Held for others	329,049,625	5,164,982,738	5,100,669,112	393,363,251
Total Liabilities	<u>\$ 329,731,809</u>	<u>\$ 5,276,128,335</u>	<u>\$ 5,166,454,077</u>	<u>\$ 439,406,067</u>



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Discretely Presented Component Units are legally separate organizations that, because of the nature and significance of their relationship with the primary government, are included in the financial reporting entity but shown separately from the primary government's financial activities.

HARRIS COUNTY HOUSING FINANCE CORPORATION - This organization was established under the Texas Housing Finance Corporation Act as a separate non-profit corporate entity. The corporation was created in 1980 by the Commissioner's Court of Harris County, but it is not a political subdivision of Harris County under state law. The corporation is exempt from federal income tax and is authorized to issue debt instruments for the purpose of purchasing single family home mortgages and providing financing for multifamily projects, both relating to low and moderate income owners/residents.

HARRIS COUNTY INDUSTRIAL DEVELOPMENT CORPORATION - This corporation was created in 1981 to approve the issuance of industrial and manufacturing bonds which promote and encourage employment and the public welfare in Harris County. Its Board of Directors is appointed by the Commissioner's Court of Harris County. The corporation is a tax-exempt entity. Although it may issue debt that Harris County has no obligation to assume, Commissioner's Court must approve the debt issuance.

CHILDREN'S ASSESSMENT CENTER FOUNDATION, INC. - This foundation was established in 1995 to provide a professional, compassionate and coordinated approach to the treatment of sexually abused children and their families and to serve as an advocate for all children in our community. The foundation is a tax-exempt entity.

HARRIS COUNTY HOUSING AUTHORITY - This organization is a non-profit political subdivision of the state of Texas formed by Harris County to provide decent, safe and sanitary housing for low to moderate income families. The governing body is appointed by the Commissioners Court of Harris County. Programs are funded through contracts with the U.S. Department of Housing and Urban Development (HUD) and Harris County Community Development.

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF NET ASSETS - NONMAJOR COMPONENT UNITS
FEBRUARY 28, 2006

	Harris County Housing Finance Corporation	Harris County Industrial Development Corporation	Children's Assessment Center Foundation	Harris County Housing Authority	Total
ASSETS					
Cash and cash equivalents	\$ 164,077	\$ 443,469	\$ 1,049,188	\$ 902,985	\$ 2,559,719
Investments, including accrued interest	7,096,278	1,326	-	-	7,097,604
Receivables:					
Accounts	-	-	17,978	-	17,978
Other	-	-	433,326	746,223	1,179,549
Other assets	181,445	2,925	120,047	-	304,417
Restricted cash and investments	-	-	4,375,224	111,825	4,487,049
Capital assets:					
Land, improvements, and construction in progress	-	-	-	4,565,387	4,565,387
Other capital assets, net of depreciation	-	-	14,259,154	78,550	14,337,704
Total assets	<u>7,441,800</u>	<u>447,720</u>	<u>20,254,917</u>	<u>6,404,970</u>	<u>34,549,407</u>
LIABILITIES					
Vouchers payable and accrued liabilities	35,884	6,613	325,628	1,204,019	1,572,144
Deferred revenue	-	-	71,975	715,000	786,975
Noncurrent liabilities:					
Due within one year	-	-	44,694	-	44,694
Due in more than one year	-	-	2,261,994	-	2,261,994
Total liabilities	<u>35,884</u>	<u>6,613</u>	<u>2,704,291</u>	<u>1,919,019</u>	<u>4,665,807</u>
NET ASSETS					
Invested in capital assets, net of related debt	-	-	-	4,643,937	4,643,937
Restricted for:					
Donor restrictions	-	-	1,127,722	352,999	1,480,721
Unrestricted net assets	7,405,916	441,107	16,422,904	(510,985)	23,758,942
Total net assets	<u>\$ 7,405,916</u>	<u>\$ 441,107</u>	<u>\$ 17,550,626</u>	<u>\$ 4,485,951</u>	<u>\$ 29,883,600</u>

HARRIS COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
NONMAJOR COMPONENT UNITS
For The Year Ended February 28, 2006

	Harris County Housing Finance Corporation	Harris County Industrial Development Corporation	Children's Assessment Center Foundation	Harris County Housing Authority	Total
REVENUES					
Program Revenues:					
Charges for services	\$ 1,122,912	\$ -	\$ 1,097,089	\$ -	\$ 2,220,001
Operating grants and contributions	-	-	1,182,621	18,278,319	19,460,940
Total program revenues	<u>1,122,912</u>	<u>-</u>	<u>2,279,710</u>	<u>18,278,319</u>	<u>21,680,941</u>
EXPENSES	<u>987,143</u>	<u>18,844</u>	<u>1,471,804</u>	<u>15,193,266</u>	<u>17,671,057</u>
Net (expenses) program revenues	<u>135,769</u>	<u>(18,844)</u>	<u>807,906</u>	<u>3,085,053</u>	<u>4,009,884</u>
General Revenues (Expenses):					
Earnings on investments	-	4,901	130,216	18,170	153,287
Other	<u>(293,436)</u>	<u>-</u>	<u>(405,004)</u>	<u>740,000</u>	<u>41,560</u>
Net general revenues (expenses)	<u>(293,436)</u>	<u>4,901</u>	<u>(274,788)</u>	<u>758,170</u>	<u>194,847</u>
Change in net assets	(157,667)	(13,943)	533,118	3,843,223	4,204,731
Net assets, beginning	<u>7,563,583</u>	<u>455,050</u>	<u>17,017,508</u>	<u>642,728</u>	<u>25,678,869</u>
Net assets, ending	<u>\$ 7,405,916</u>	<u>\$ 441,107</u>	<u>\$ 17,550,626</u>	<u>\$ 4,485,951</u>	<u>\$ 29,883,600</u>

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (AS REVISED)

County Judge Ed Emmett and
Members of Commissioners Court
of Harris County, Texas:

Compliance

We have audited the compliance of Harris County, Texas (the "County") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal and state programs for the year ended February 28, 2006. The County's major federal programs and major state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs and major state programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Uniform Grant Management Standards* ("UGMS"). Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and major state programs for the year ended February 28, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and UGMS and which is described in the accompanying Schedule of Findings and Questioned Costs as finding 06-02.

As discussed in Note 5 to the Schedule of Expenditures of Federal and State Awards, the Schedule of Findings and Questioned Costs was revised for the addition of a major program and the inclusion of material weaknesses and reportable conditions related to the financial statements.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs and state programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and UGMS.

Our consideration of the County's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the County's internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County Judge and Commissioners Court members, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

July 27, 2006 (September 25, 2007 as to Note 5 to the Schedule of Expenditures of Federal and State Awards)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (AS REVISED)

County Judge Ed Emmett and
Members of Commissioners Court of
Harris County, Texas:

We have audited the basic financial statements (as restated) of Harris County, Texas (the "County") as of and for the year ended February 28, 2006, and have issued our report thereon dated July 27, 2006 (September 25, 2007 as to the effects of the restatement discussed in Note 21 to the Financial Statements and Note 5 to the Schedule of Expenditures of Federal and State Awards). We did not audit the financial statements of the discretely presented component units; we also did not audit the financial statements of the Harris County, Texas County Clerk Trust Funds and the Harris County, Texas District Clerk Court Registry Funds, which statements reflect total assets of \$179,955,416 at February 28, 2006. Those financial statements were audited by other auditors whose reports expressing unqualified opinions have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for discretely presented component units, the Harris County, Texas County Clerk Trust Funds and the Harris County, Texas District Clerk Court Registry Funds, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-03, 06-04, 06-05, 06-06 and 06-07.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that reportable conditions 06-06 and 06-07 described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 06-01.

As discussed in Note 5 to the Schedule of Expenditures of Federal and State Awards, the Schedule of Findings and Questioned Costs was revised for the addition of a major program and the inclusion of material weaknesses and reportable conditions related to the financial statements.

This report is intended solely for the information and use of the County Judge and Commissioners Court members, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

July 27, 2006 (September 25, 2007 as to the effects of the restatement discussed in Note 21 to the Financial Statements and Note 5 to the Schedule of Expenditures of Federal and State Awards)

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
<u>FEDERAL GRANTS</u>					
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					
DIRECT PROGRAMS:					
7020	Supportive Housing Program 2003	14.235	TX01B30	\$ 71,323	\$ 71,323
7020	Supportive Housing Program 2004	14.235	TX01B40	415,778	415,778
7130	Emergency Shelter Grant Program 2000	14.231	S-00-UC-48-0002	15,998	15,998
7130	Emergency Shelter Grant Program 2002	14.231	S-02-UC-48-0002	42,554	42,554
7130	Emergency Shelter Grant Program 2003	14.231	S-03-UC-48-0002	62,332	62,332
7130	Emergency Shelter Grant Program 2004	14.231	S-04-UC-48-0002	267,528	267,528
7130	Emergency Shelter Grant Program 2005	14.231	S-05-UC-48-0002	254,040	230,762
7140	HOME Investment Partnership Program 1997	14.239	M-97-UC-48-0215	93,931	5,000
7140	HOME Investment Partnership Program 1998	14.239	M-98-UC-48-0215	26,005	25,014
7140	HOME Investment Partnership Program 2001	14.239	M-01-UC-48-0215	1,387,532	1,383,547
7140	HOME Investment Partnership Program 2002	14.239	M-02-UC-48-0215	1,921,540	1,904,068
7140	HOME Investment Partnership Program 2003	14.239	M-03-UC-48-0215	1,192,949	1,192,948
7140	HOME Investment Partnership Program 2004	14.239	M-04-UC-48-0215	2,488,790	1,034,746
7140	HOME Investment Partnership Program 2005	14.239	M-05-UC-48-0215	884,097	446,839
7200	Shelter Plus Care Program 1996	14.238	TX21C96	432,483	426,509
7200	Shelter Plus Care Program 1997	14.238	TX21C97	16,209	16,169
7200	Shelter Plus Care Program 1998	14.238	TX21C81	50,382	49,934
7200	Shelter Plus Care Program 2001	14.238	TX01C10	11,854	11,854
7200	Shelter Plus Care Program 2002	14.238	TX01C20	44,395	44,395
7200	Shelter Plus Care Program 2003	14.238	TX01C30	759,346	730,044
7200	Shelter Plus Care Program 2004	14.238	TX01C40	1,121,767	1,121,129
7660	Community Development Block Grant/Entitlement Grants 1998	14.218	B-98-UC-48-0002	73,171	30,000
7660	Community Development Block Grant/Entitlement Grants 1999	14.218	B-99-UC-48-0002	41,957	-
7660	Community Development Block Grant/Entitlement Grants 2000	14.218	B-00-UC-48-0002	166,772	160,262
7660	Community Development Block Grant/Entitlement Grants 2001	14.218	B-01-UC-48-0002	5,496	1,917
7660	Community Development Block Grant/Entitlement Grants 2002	14.218	B-02-UC-48-0002	1,484,649	1,390,291
7660	Community Development Block Grant/Entitlement Grants 2003	14.218	B-03-UC-48-0002	3,527,740	2,324,039
7660	Community Development Block Grant/Entitlement Grants 2004	14.218	B-04-UC-48-0002	5,095,477	1,432,567
7660	Community Development Block Grant/Entitlement Grants 2005	14.218	B-05-UC-48-0002	2,833,816	724,624
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				24,789,911	15,562,171
<u>U.S. DEPARTMENT OF JUSTICE</u>					
DIRECT PROGRAMS:					
1000	State Criminal Alien Assistance Program	16.606	NONE	2,693,977	-
2590	Constable Seized Assets - Justice Department	16.000	NONE	30,631	-
2610	Sheriff Seized Assets - Justice Department	16.000	NONE	2,341,752	-
2570	District Attorney Seized Assets - Justice Department	16.000	NONE	41,932	-
7014	STAR - Success Through Addiction Recovery	16.585	2004-DC-BX-0029	135,497	-
7215	Human Trafficking Rescue Alliance Support	16.320	2005-VT-BX-0007	115,634	-
8480	L.L.E.B.G.-Local Law Enforcement Block Grant 2002	16.592	2002-LB-BX-2529	13,734	-
8480	L.L.E.B.G.-Local Law Enforcement Block Grant 2003	16.592	2003-LB-BX-2247	575,515	-
8480	L.L.E.B.G.-Local Law Enforcement Block Grant 2004	16.592	2004-LB-BX-1438	50,828	-
7021	COPS - Technology 2004	16.710	2004-CK-WX-0253	1,302,398	-
8565	COPS - In School Program	16.710	2000-SH-WX-0553	66	-
8585	COPS - Universal Hiring Program	16.710	2002-UL-WX-0024	153,194	-
8593	Weed & Seed 2001	16.595	2001-WS-QX-0143	270	-
8593	Weed & Seed 2005	16.595	2005-WS-Q5-0118	38,125	-
8605	Bulletproof Vest Partnership Program 1999	16.607	BVP-1999	71,831	-
8605	Bulletproof Vest Partnership Program 2004	16.607	BVP-2004	43,445	-
8605	Bulletproof Vest Partnership Program 2006	16.607	BPV-2006	171	-
8775	DNA Enhancement Program	16.560	2004-DN-BX-K152	194,358	-
8778	Forensic Casework DNA Backlog Reduction Program	16.560	2004-DN-BX-K152	516,846	-
8779	Harris County Forensic Laboratory Improvement Project	16.560	2005-DN-BX-0017	9,266	-
8825	Gang Resistance Education And Training (GREAT)	16.737	2004-JV-FX-0044	19,984	-
8825	Gang Resistance Education And Training (GREAT)	16.737	2004-JV-FX-0164	35,974	-
8825	Gang Resistance Education And Training (GREAT)	16.737	2004-JV-FX-0163	24,590	-
8825	Gang Resistance Education And Training (GREAT)	16.737	2004-JV-FX-0044-01	19,643	-
8825	Gang Resistance Education And Training (GREAT)	16.737	2004-JV-FX-0164-01	36,733	-
8825	Gang Resistance Education And Training (GREAT)	16.737	2004-JV-FX-0163-01	82,508	-

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
PASS THROUGH PROGRAMS, OFFICE OF THE GOVERNOR, CRIMINAL JUSTICE DIVISION:					
7009	Harris County Truancy Program	16.548	JT-02-J20-16640-02	48,616	-
7009	Harris County Truancy Program	16.548	JT-05-J20-16640-03	81,965	-
7019	STAR - Success Through Addiction Recovery	16.579	DB-03-A10-16920-02	53,144	-
7019	STAR - Success Through Addiction Recovery	16.579	DJ-05-A10-16920-03	72,771	-
7595	Residential Substance Abuse Treatment for Harris County Juveniles	16.593	RT-03-A10-14876-06	226,093	-
7595	Residential Substance Abuse Treatment for Harris County Juveniles	16.593	RT-04-A10-14876-07	8,764	-
7980	Coordinated Juvenile Crime Enforcement	16.523	JB-03-J20-13316-06	485,033	-
7980	Coordinated Juvenile Crime Enforcement	16.523	JB-04-J20-13316-07	241,981	-
8410	Residential Substance Abuse Treatment - New Choices	16.593	RT-04-A10-14878-07	140,448	-
8410	Residential Substance Abuse Treatment - New Choices	16.593	RT-05-A10-14878-08	72,755	-
8520	Domestic Violence Unit	16.588	WF-04-V30-13456-07	24,057	-
8520	Domestic Violence Unit	16.588	WF-05-V30-13456-08	20,696	-
8675	Harris County Forensic Laboratory Training Program	16.560	DN-04-A10-17480-01	14,521	-
8705	Crime Victims Assistance	16.588	WF-05-V30-18112-01	22,748	-
8760	Caseworker Intervention Expansion Project	16.588	WF-04-V30-13454-07	30,644	-
8760	Caseworker Intervention Expansion Project	16.588	WF-05-V30-13454-08	31,233	-
8711	Protective Order Prosecutor Project	16.588	WF-04-V30-13547-07	36,455	-
8711	Protective Order Prosecutor Project	16.588	WF-05-V30-13547-08	31,314	-
8766	Felony Family Violence Careworker	16.588	WF-04-V30-17204-01	28,761	-
8766	Felony Family Violence Careworker	16.588	WF-05-V30-17204-02	23,782	-
8960	Police Training for Violent Crimes Against Woman	16.588	WF-03-V04-13455-07	27,754	-
8960	Police Training for Violent Crimes Against Woman	16.588	WF-05-V30-13455-08	23,043	-
7463	Safe Schools/Healthy Students	16.732	JA-04-J20-16871-02	22,975	-
PASS THROUGH PROGRAMS, TEXAS ALCOHOLIC BEVERAGE COMMISSION:					
7749	Task Force for Underage Drinking	16.727	NONE	9,808	-
PASS THROUGH PROGRAMS, CITY OF HOUSTON:					
8715	JAG - Justice Assistance Grant	16.738	2005-DJ-BX-0119	79,231	-
PASS THROUGH PROGRAMS, HOUSTON-GALVESTON AREA COUNCIL:					
7981	Training for Juvenile Justice Professionals - JAIBG	16.523	JB-02-J20-13383-06	14,900	-
PASS THROUGH PROGRAMS, SAM HOUSTON STATE UNIVERSITY:					
7707	Project Safe Neighborhood	16.609	321-20-5031	134,386	-
PASS THROUGH PROGRAMS, CITY OF BAYTOWN:					
8650	Harris County Organized Crime & Narcotics Task Force	16.579	DB-04-A10-12019-06	653,682	-
TOTAL U.S. DEPARTMENT OF JUSTICE				<u>11,210,462</u>	<u>-</u>
U.S. DEPARTMENT OF LABOR					
PASS THROUGH PROGRAMS, HOUSTON-GALVESTON AREA COUNCIL:					
7032	WorkSource Services - Hurricane Katrina Project	17.258	210-06	73,091	-
PASS THROUGH PROGRAMS, TEXAS WORKFORCE COMMISSION:					
7024	PAL - Transition Center	17.261	2805MFS000	258,307	-
7024	PAL - Transition Center	93.558	2805MFS000	200,319	-
7024	PAL - Transition Center	93.674	2805MFS000	52,715	-
TOTAL U.S. DEPARTMENT OF LABOR				<u>584,432</u>	<u>-</u>

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>					
PASS THROUGH PROGRAMS, HOUSTON-GALVESTON AREA COUNCIL:					
7125	Non-Emergency Transportation Services	20.513	TS4640-01	404,996	-
PASS THROUGH PROGRAMS, TEXAS PARKS AND WILDLIFE DEPARTMENT:					
7205	National Recreational Trails Program	20.219	RT-0311	83,791	-
PASS THROUGH PROGRAMS, TEXAS DEPARTMENT OF TRANSPORTATION:					
8865	STEP - Driving While Intoxicated (DWI)	20.600	585XXF5010	70,678	-
8865	STEP - Driving While Intoxicated (DWI)	20.600	586XXF5003	22,547	-
8880	STEP - Comprehensive	20.600	585XXF5003	46,410	-
8880	STEP - Comprehensive	20.600	586XXF5010	28,457	-
8895	STEP - Safe & Sober	20.600	585XXF5006	73,621	-
8895	STEP - Comprehensive	20.600	586XXF5011	48,631	-
8896	STEP - Impaired Driving Mobilization (IDM 163)	20.600	585XXF5029	15,759	-
8897	STEP - Comprehensive Commercial Motor Vehicle	20.600	586XXF5015	19,695	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				814,585	-
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
PASS THROUGH PROGRAMS, TEXAS DEPARTMENT OF STATE HEALTH SERVICES:					
8320	WIC - Women, Infant, and Children	10.557	7604545149-2005	3,721,036	-
8320	WIC - Women, Infant, and Children	10.557	7604545149-2006	2,547,117	-
PASS THROUGH PROGRAMS, TEXAS DEPARTMENT OF HUMAN SERVICES:					
1000	National School Breakfast Program -Juvenile Probation	10.553	75F4006	947,953	-
1000	National School Breakfast Program - CPS	10.553	75D4002	36,525	-
1000	National School Lunch Program Commodities - CPS	10.555	75D4002	1,484	-
1000	National School Lunch Program Commodities - Juvenile Probation	10.555	75F4006	10,301	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE				7,264,416	-
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>					
DIRECT PROGRAMS:					
7065	Unincorporated Area Revitalization Project	66.202	XP-97679101	124,038	-
7456	Harris County BMP Effectiveness in Pollutant Reduction	66.463	CP-97652901	62,844	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY				186,882	-
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
DIRECT PROGRAMS:					
7296	Harris County Alliance for Children & Families	93.104	SM-05-010	14,179	-
8040	Basic Center Program for Runaway and Homeless Youth	93.623	06CY0795/03	116,846	-
8040	Basic Center Program for Runaway and Homeless Youth	93.623	06CY0847/01	775	-
8125	HRSA-Special Projects of National Significance	93.928	H97HA03786	266,191	-
8200	Ryan White Title I - Formula & Supplemental	93.914	H89HA00004-14	2,532,985	2,443,856
8200	Ryan White Title I - Formula & Supplemental	93.914	H89HA00004-15	17,291,312	15,426,725

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
PASS THROUGH PROGRAMS, TEXAS DEPARTMENT OF STATE HEALTH SERVICES:					
7018	BNS - Public Health Nutrition - SPAN	93.991	7604545149-2005-16	12,900	-
7375	Cities Readiness Initiative	93.283	7604545149-2005-17	556,845	-
8050	Title V - Maternal & Child Health	93.994	7604545149B-2005-01	554,405	-
8050	Title V - Maternal & Child Health	93.994	7604545149B-2006-01	290,685	-
8060	Refugee Health Screening Program	93.576	7604545149-2005-13	496,439	-
8060	Refugee Health Screening Program	93.576	7604545149-2006-11	266,181	-
8070	Immunization Action Plan	93.268	7604545149-2005-03	222,468	-
8070	Immunization Action Plan	93.268	7604545149-2006-06	331,811	-
8090	Tuberculosis Prevention and Control	93.116	7604545149-2006-03	109,070	-
8090	Tuberculosis Prevention and Control	93.116	7604545149-2007-01	17,255	-
8100	Tuberculosis Prevention and Control	93.116	7604545149A-2006-02	27,838	-
8100	Tuberculosis Prevention and Control	93.116	7604545149A-2007-01	6,690	-
8110	Title X - Family Planning	93.217	7604545149-2005-10	1,090,734	-
8110	Title X - Family Planning	93.217	7604545149-2006-14	167,486	-
8130	State Legalization Impact Assistance Grant	93.000	C9000533	3,703	-
8140	HIV Prevention	93.940	7604545149A-2006-01	276,997	-
8140	HIV Prevention	93.940	7604545149A-2007-02	54,798	-
8150	HIV Prevention	93.940	7604545149-2006-01	91,447	-
8150	HIV Prevention	93.940	7604545149-2007-02	25,962	-
8160	Community Health Services - Population Based	93.994	7604545149C-2006-01	18,122	-
8160	Community Health Services - Population Based	93.994	7604545149-2005-06A	129,862	-
8165	Bioterrorism Preparedness	93.283	7604545149-2005-12	1,156,607	-
8165	Bioterrorism Preparedness	93.283	7604545149-2006-09	939,728	-
8180	TDH Vaccine-Medical Records	93.268	NONE	3,634,051	-
8215	Infectious Disease Epidemiology and Surveillance - West Nile	93.283	7604545149-2005-09	78,961	-
8215	Infectious Disease Epidemiology and Surveillance - West Nile	93.283	7604545149-2006-04	128,580	-
PASS THROUGH PROGRAMS, TEXAS OFFICE OF THE ATTORNEY GENERAL:					
7012	Title IV-D Integrated Child Support System	93.563	04-C0236	217,217	-
7012	Title IV-D Integrated Child Support System	93.563	06-C0042	220,224	-
7635	Ensuring Access, Encouraging Support	93.564	05-C0057	77,273	-
PASS THROUGH PROGRAMS, TEXAS DEPARTMENT OF FAMILY AND PROTECTIVE SERVICES:					
7023	TITLE IV-E Child Welfare Services FY2005	93.658	2003063076	1,354,642	-
7023	TITLE IV-E Child Welfare Services FY2006	93.658	2003063076	790,591	-
7007	TITLE IV-E LEGAL SERVICES	93.658	2003063077	813,013	-
7007	TITLE IV-E LEGAL SERVICES	93.658	23357147	407,054	-
8488	Community Youth Development FY2004	93.556	23262275	33,883	-
8488	Community Youth Development FY2005	93.556	23262275	513,650	315,015
8488	Community Youth Development FY2006	93.556	23356015	202,471	126,963
8045	STAR - Services to At Risk Youth Program	93.556	23335721-FY05	87,897	-
8045	STAR - Services to At Risk Youth Program	93.556	23335721-FY06	117,809	-
PASS THROUGH PROGRAMS, UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON:					
8145	ST.Louis Encephalitis - UTMB	93.856	N01-AI-25489	269,811	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				36,017,448	18,312,559

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u>					
DIRECT PROGRAMS:					
8540	Major Drug Squad 2002	07.999	I2PHNP510	1,258	-
8540	Major Drug Squad 2004	07.999	I4PHNP510	3,844	-
8540	Major Drug Squad 2005	07.999	I5PHNP510	76,382	-
8600	Targeted Narcotics Enforcement Team 2001	07.999	I1PHNP515	897	-
8600	Targeted Narcotics Enforcement Team 2004	07.999	I4PHNP510	1,147	-
8600	Targeted Narcotics Enforcement Team 2005	07.999	I5PHNP510	10,493	-
8610	Currency/Narcotics Transshipment 2001	07.999	I1PHNP514	22,305	-
8610	Truck, Air, Rail, and Port Initiative 2003	07.999	I3PHNP510	4,949	-
8610	Truck, Air, Rail, and Port Initiative 2004	07.999	I4PHNP510	1,558	-
8610	Truck, Air, Rail, and Port Initiative 2005	07.999	I5PHNP510	33,283	-
8615	Gang & Non-Traditional Gang Squad 2002	07.999	I2PHNP524	11,940	-
8615	Gang & Non-Traditional Gang Squad 2003	07.999	I3PHNP510	3,315	-
8615	Gang & Non-Traditional Gang Squad 2004	07.999	I4PHNP510	3,046	-
8615	Gang & Non-Traditional Gang Squad 2005	07.999	I5PHNP510	6,304	-
8620	Money Laundering Initiative 2001	07.999	I1PHNP513	4,338	-
8620	Money Laundering Initiative 2002	07.999	I2PHNP513	2,565	-
8620	Money Laundering Initiative 2003	07.999	I3PHNP510	15,239	-
8620	Money Laundering Initiative 2004	07.999	I4PHNP510	36,342	-
8620	Money Laundering Initiative 2005	07.999	I5PHNP510	408,238	-
8620	Domestic Highway Interdiction 2004	07.999	I4PHNP510	2,763	-
8630	Violent Crime Initiative 2001	07.999	I1PHNP512	1,455	-
8630	Violent Crime Initiative 2002	07.999	I2PHNP534	4,894	-
8635	Methamphetamine Initiative Group 2002	07.999	I2PHNP528	315	-
8635	Methamphetamine Initiative Group 2003	07.999	I3PHNP510	799	-
8635	Methamphetamine Initiative Group 2004	07.999	I4PHNP510	332	-
8635	Methamphetamine Initiative Group 2005	07.999	I5PHNP510	11,769	-
8640	Joint Drug Intelligence Group 2001	07.999	I1PHNP511	3,189	-
8640	Joint Drug Intelligence Group 2002	07.999	I2PHNP511	192,459	-
8640	Joint Drug Intelligence Group 2003	07.999	I3PHNP510	2,100	-
8640	Houston Intelligence Support Center 2004	07.999	I4PHNP510	7,356	-
8640	Houston Intelligence Support Center 2005	07.999	I5PHNP510	64,987	-
8008	Major Drug Squad 2006	07.999	I6PHNP510	10,035	-
8008	Houston Intelligence Support Center 2006	07.999	I6PHNP510	8,041	-
8008	Truck, Air, Rail, and Port Initiative 2006	07.999	I6PHNP510	5,509	-
TOTAL OFFICE OF NATIONAL DRUG CONTROL POLICY				963,446	-
<u>NATIONAL AERONAUTICS SPACE ADMINISTRATION</u>					
DIRECT PROGRAM:					
7281	Regulating Rapidly Growing Urban Watersheds	43.000	NAG 13-02027	155,246	-
TOTAL NATIONAL AERONAUTICS SPACE ADMINISTRATION				155,246	-
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>					
PASS THROUGH PROGRAMS, UNITED WAY:					
7280	FEMA Phase XXI - Emergency Food & Shelter Program	97.024	NONE	356	-
7280	FEMA Phase XXII - Emergency Food & Shelter Program	97.024	NONE	101	-
7280	FEMA Phase XXIII - Emergency Food & Shelter Program	97.024	NONE	499,348	-
PASS THROUGH PROGRAMS, TEXAS ASSOCIATION OF REGIONAL COUNCILS (TARC):					
7107	Citizens Corps Grant FY2004	97.067	2004 CCP - 48201	75,868	-
7107	Citizens Corps Grant FY2005	97.067	2005 HSGP - 48201	18,753	-

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
PASS THROUGH PROGRAMS, GOVERNORS DIVISION OF EMERGENCY MANAGEMENT:					
7284	FEMA - Public Assistance - Tropical Storm Allison	97.036	FEMA-1379-DR	5,000	-
7283	FEMA - Hazard Mitigation Grant Project - TSA	97.039	FEMA-1379-DR	699,565	-
7016	Urban Area Security Initiative	97.067	2003-UASI-48201	6,360,375	-
7016	Urban Area Security Initiative	97.067	2004-UASI-48201	7,051,762	-
7016	Urban Area Security Initiative	97.067	2005-HSGP-48201	910,810	-
7289	Emergency Management Performance Grant 2005	97.067	05TX-EMPG-058	208,409	-
7294	FEMA - Public Assistance - Hurricane Katrina	97.036	FEMA-3216-EM-TX	7,052,324	-
8525	Homeland Security Grant Program	97.067	2003-SHSP-48201	17,658	-
8525	Homeland Security Grant Program	97.067	2004-SHSP-48201	824,053	-
8525	Homeland Security Grant Program	97.067	2005-HSGP-48201	174,899	-
PASS THROUGH PROGRAMS, TEXAS DEPARTMENT OF PUBLIC SAFETY:					
7285	FEMA - Public Assistance - Tropical Storm Frances	97.036	FEMA-1245-DR	116,903	-
7287	FEMA - Public Assistance - October & November 1998 Floods	97.036	FEMA-1257-DR	135,839	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				<u>24,152,023</u>	<u>-</u>
DEPARTMENT OF EDUCATION					
PASS THROUGH PROGRAMS, READING IS FUNDAMENTAL, INC.:					
7448	Reading is Fundamental (RIF)	84.359	TX-862-D	4,575	-
TOTAL DEPARTMENT OF EDUCATION				<u>4,575</u>	<u>-</u>
U.S. ELECTIONS ASSISTANCE COMMISSION					
PASS THROUGH PROGRAMS, STATE OF TEXAS OFFICE OF THE SECRETARY OF STATE:					
7262	Help America Vote Act - Title II	90.401	NONE	2,805,000	-
7262	Help America Vote Act - Title III - FY03	90.401	NONE	3,209,467	-
7262	Help America Vote Act - Title III - FY04	90.401	NONE	12,042,351	-
TOTAL U.S. ELECTIONS ASSISTANCE COMMISSION				<u>18,056,818</u>	<u>-</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES					
DIRECT PROGRAMS:					
8456	Elizabeth I: Ruler and Legend	45.164	GL-50218-03	1,000	-
PASS THROUGH PROGRAMS, TEXAS COUNCIL FOR HUMANITIES:					
8455	Texas Council for Humanities	45.164	2004-3045	4,460	-
TOTAL NATIONAL ENDOWMENT FOR THE HUMANITIES				<u>5,460</u>	<u>-</u>
U.S. DEPARTMENT OF THE TREASURY					
DIRECT PROGRAMS:					
2600	Sheriff Seized Assets	21.000	NONE	390,144	-
TOTAL U.S. DEPARTMENT OF TREASURY				<u>390,144</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 124,595,848</u>	<u>\$ 33,874,730</u>

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
<u>STATE GRANTS</u>					
<u>OFFICE OF THE GOVERNOR, CRIMINAL JUSTICE DIVISION</u>					
DIRECT PROGRAMS:					
7045	Adult Violent Death Review Team	N/A	SF-05-A10-17220-01	\$ 20,706	\$ -
7045	Adult Violent Death Review Team	N/A	SF-06-A10-17220-02	12,386	-
7695	Sex Crimes Offender Registration Unit	N/A	SF-05-A10-14571-05	34,412	-
7695	Sex Offender Monitoring and Compliance	N/A	SF-05-A10-16846-02	48,782	-
7697	Sex Offender Compliance Enforcement and Monitoring	N/A	SF-06-A10-18099-01	56,301	-
8705	Crime Victims Assistance	N/A	SF-05-V30-15979-03	70,586	-
8705	Crime Victims Assistance	N/A	SF-05-V30-16845-02	61,996	-
8725	Cold Case Squad	N/A	SF-05-A10-15490-04	38,244	-
8765	Family Violence Specialized Caseworker	N/A	SF-05-V30-14570-05	11,902	-
8768	Success Through Addiction Recovery - State Drug Court	N/A	DC-05-A10-17374-01	26,198	-
8768	Success Through Addiction Recovery - State Drug Court	N/A	DC-06-A10-17374-02	1,707	-
8980	Runaway Investigative Unit	N/A	SF-06-J20-17577-01	23,718	-
PASS THROUGH PROGRAMS, HOUSTON-GALVESTON AREA COUNCIL:					
7028	Abducted and Missing Persons Unit	N/A	SF-06-A10-17578-01	41,103	-
TOTAL OFFICE OF THE GOVERNOR, CRIMINAL JUSTICE DIVISION				<u>448,041</u>	<u>-</u>
<u>TEXAS PARKS AND WILDLIFE DEPARTMENT</u>					
DIRECT PROGRAMS:					
1000	Community Outdoor Outreach Program	N/A	52-000357	27,600	-
TOTAL TEXAS PARKS AND WILDLIFE DEPARTMENT				<u>27,600</u>	<u>-</u>
<u>TEXAS OFFICE OF THE ATTORNEY GENERAL</u>					
DIRECT PROGRAMS:					
8270	Texas Automated Victim Notification - VINE	N/A	04-01403	129,021	-
TOTAL TEXAS OFFICE OF THE ATTORNEY GENERAL				<u>129,021</u>	<u>-</u>
<u>OFFICE OF THE COMPTROLLER</u>					
DIRECT PROGRAMS:					
8685	Tobacco Compliance 2004	N/A	NONE	5,079	-
8685	Tobacco Compliance 2006	N/A	NONE	4,782	-
TOTAL OFFICE OF THE COMPTROLLER				<u>9,861</u>	<u>-</u>
<u>TEXAS HEALTH AND HUMAN SERVICES COMMISSION</u>					
DIRECT PROGRAMS:					
7724	Expansion of Guardianship Program - Ward Mentor Program	N/A	HHSC-529-05-0130-00001	7,649	-
8037	Children's Health Insurance Program (CHIP)	N/A	HHSC-529-00-090H	208,736	-
TOTAL TEXAS HEALTH AND HUMAN SERVICES COMMISSION				<u>216,385</u>	<u>-</u>

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
<u>TEXAS DEPARTMENT OF STATE HEALTH SERVICES</u>					
DIRECT PROGRAMS:					
8020	Tuberculosis Prevention and Control	N/A	7604545149-2005-04	215,106	-
8020	Tuberculosis Prevention and Control	N/A	7604545149-2006-07	184,514	-
8030	Regional and Local Services	N/A	7604545149-2005-08	128,052	-
8030	Regional and Local Services	N/A	7604545149-2006-05	132,125	-
8065	Tobacco Prevention and Control	N/A	7604545149-2005-05	202,233	-
8065	Tobacco Prevention and Control	N/A	7604545149-2006-08	175,808	-
8065	Tobacco Prevention and Control	N/A	7604545149-2005-07	21,686	-
7085	CPNPA - Community Project/nutrition	N/A	7604545149-2005-16	7,477	-
8160	Abstinence Education Program	N/A	7604545149-2005-14	27,740	-
8160	Abstinence Education Program	N/A	7604545149-2006-12	19,800	-
PASS THROUGH PROGRAMS, THE RESOURCE GROUP:					
8515	Early Medical Intervention	N/A	05HCS00SS	44,736	-
8515	Early Medical Intervention	N/A	06HCS00SS	43,439	-
TOTAL TEXAS DEPARTMENT OF STATE HEALTH SERVICES				1,202,716	-
<u>TEXAS DEPARTMENT OF TRANSPORTATION</u>					
DIRECT PROGRAMS:					
8710	Texas Automobile Theft Prevention	N/A	SA-T01-10052-05	285,879	-
8710	Texas Automobile Theft Prevention	N/A	SA-T01-10052-06	335,006	-
TOTAL TEXAS DEPARTMENT OF TRANSPORTATION				620,885	-
<u>TEXAS STATE LIBRARY AND ARCHIVES COMMISSION</u>					
DIRECT PROGRAMS:					
8285	Loan Star Libraries Program FY05	N/A	442-05230	115,955	-
8285	Loan Star Libraries Program FY06	N/A	442-06229	75,807	-
PASS THROUGH PROGRAMS, HOUSTON AREA LIBRARY SYSTEM:					
7446	HALS Grant	N/A	NONE	125,734	-
TOTAL TEXAS STATE LIBRARY AND ARCHIVES COMMISSION				317,496	-
<u>TEXAS COMMISSION ON ENVIRONMENTAL QUALITY</u>					
DIRECT PROGRAMS:					
7222	Low Income Vehicle Repair Assistance Program	N/A	582-2-55082-01	878,191	878,191
PASS THROUGH PROGRAMS, HOUSTON GALVESTON AREA COUNCIL:					
8730	Solid Waste Implementation-Source Reduction and Recycling	N/A	04-16-G07	21,975	-
8731	Solid Waste Implementation-Local Enforcement	N/A	05-16-G24	79,221	-
TOTAL TEXAS COMMISSION ON ENVIRONMENTAL QUALITY				979,387	878,191

HARRIS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures	Amount Provided to Subrecipients
<u>TEXAS WORKFORCE COMMISSION</u>					
DIRECT PROGRAMS:					
7024	PAL - Transition Center	N/A	2805MFS000	15,815	-
TOTAL TEXAS WORKFORCE COMMISSION				<u>15,815</u>	<u>-</u>
<u>TEXAS OFFICE OF COURT ADMINISTRATION</u>					
DIRECT PROGRAMS:					
1000	Indigent Defense Formula Grant	N/A	NONE	1,862,899	-
TOTAL TEXAS OFFICE OF COURT ADMINISTRATION				<u>1,862,899</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE AWARDS				<u>\$ 5,830,106</u>	<u>\$ 878,191</u>
GRAND TOTAL EXPENDITURES OF FEDERAL & STATE AWARDS				<u>\$ 130,425,954</u>	<u>\$ 34,752,921</u>

HARRIS COUNTY, TEXAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)

1. The accompanying schedule of expenditures of federal and state awards includes the federal grant activity and state grant activity of the County and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal and state awards provided to subrecipients are treated as an expenditure when paid to the subrecipient.

2. Reconciliation of the Schedule of Expenditures of Federal and State Awards to Grants Special Revenue Fund of the Annual Financial Report for the year ended February 28, 2006:

Federal expenditures per schedule	\$ 124,595,848
State expenditures per schedule	<u>5,830,106</u>
Subtotal	130,425,954
Add:	
Trial Balance adjustments for modified accrual basis of accounting	2,506,151
County funded portion of grants	3,981,580
Local Grants	4,532,079
Less:	
Grants - Other fund types	<u>(26,442,061)</u>
Total	<u>\$ 115,003,703</u>
Balance per Annual Financial Report - Grants Special Revenue Fund	<u>\$ 115,003,703</u>

HARRIS COUNTY, TEXAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)

3. Reporting Entity - The County, for purposes of the supplementary schedule of expenditures of federal and state awards includes all the funds of the primary government as defined by the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." It does not include the following component units of the County as follows:

	<u>Federal & State Awards</u>
Harris County Hospital District	\$ 13,657,040
Harris County Flood Control District	11,100,151
Harris County Juvenile Board	8,885,241
Mental Health and Mental Retardation Authority	76,819,832
Harris County Housing Authority	18,507,667
The Children's Assessment Center Foundation	535,127

These component units also receive federal financial assistance but separately satisfy the audit requirements of OMB Circular A-133 by engaging other auditors to perform an audit in accordance with OMB Circular A-133.

4. Noncash Awards - Certain federal financial award programs do not involve cash awards to Harris County. These programs include donated vaccines and commodities as follows:

U.S. Department of Health & Human Services

Donated Vaccine (CFDA #93.268)

Value of vaccines issued	\$ 3,634,051
Value of vaccines on hand	439,459

U.S. Department of Agriculture

Donated Commodities (CFDA #10.555)

Value of commodities issued	\$ 11,785
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5. Subsequent Event – Upon receipt of comments from the U.S. Department of Health and Human Services (HHS), it was noted that one of the HHS programs, Title IV-E Legal and Child Welfare Services, CFDA No. 93.658, met the OMB Circular A-133 requirements of being a major program, which was not identified as such in the original report dated July 27, 2006. Consequently, the Schedule of Findings and Questioned Costs for the year ended February 28, 2006 has been revised to reflect CFDA No. 93.658 as a major program. In addition, Parts I and II to the Schedule of Findings and Questioned Costs have been revised to disclose material weaknesses 06-06 and 06-07 and reportable conditions 06-03, 06-04, and 06-05.

HARRIS COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)

I. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. Material weaknesses and reportable conditions in internal control over financial reporting were identified.
3. One instance of noncompliance considered material to the basic financial statements was disclosed in the audit.
4. No material weaknesses in internal control over compliance with requirements applicable to major federal and state awards programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal and state award programs expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133 and State of Texas *Uniform Grant Management Standards* ("UGMS").
7. The County's major programs were:

Name of Major Federal/State Program	CFDA Number
Help America Vote Act (HAVA), Title I	90.401
Title IV-E Child Welfare Services	93.658
Title IV-E Legal Services	93.658
Ryan White Title I - Formula & Supplement	93.914
FEMA - Public Assistance Grants	97.036
Indigent Defense Formula Grant	State
Texas Automobile Theft Prevention	State
Texas Tobacco Prevention and Control	State

8. For federal awards and state awards, a dollar threshold of \$3,000,000 and \$300,000, respectively, was used to distinguish between Type A and Type B programs, as defined in OMB Circular A-133 and UGMS.
9. The County qualified as a low-risk auditee, as defined in OMB Circular A-133 and UGMS.

HARRIS COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)

II. FINANCIAL STATEMENT FINDINGS SECTION

Program	Finding/Noncompliance	Questioned Costs
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Finding 06-01

Finding: The Harris County Sports & Convention Corporation's (the "Corporation"), a blended component unit of Harris County, Texas (the "County"), investment activities are governed by the State of Texas Public Funds Investment Act (the "Act"). The Corporation made a \$12 million investment in the Harris County – Houston Sports Authority's Subordinate Lien Notes Series 2001 C-1 and Series C-2 (the "Notes") that were not in compliance with the Act, because the Notes did not receive a rating from at least one nationally recognized investment rating firm.

N/A

Cause: Under the Act, the Corporation is authorized to invest in (1) direct debt securities of the United States or its Agencies, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States, (5) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

Recommendation: Ensure compliance with the Act.

Corrective Action Plan of Management: The Corporation agrees that this investment does not comply with the Texas Public Investment Act; however, the Corporation has been unable to divest itself of the Notes. The Corporation has adopted an investment policy that prohibits future investments that do not comply with the Act.

Estimated Completion Date: Maturity of Notes

County Contact Person: Willie P. Loston, Executive Director of Harris County Sports & Convention Corporation

Finding 06-03 – Reportable Condition

Finding: During the fiscal year 2006 audit, the County discovered that several material capital assets were either: misclassified, improperly valued, or omitted from prior year financial statements. Additional misstatements were detected during the review of leased properties. As a result of these errors, a restatement of the prior year capital asset balances was necessary.

N/A

HARRIS COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)

Program	Finding/Noncompliance	Questioned Costs
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Cause: Due to the decentralization of the County's operations, a number of departments and individuals have responsibilities related to the identification and proper recording of capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB 34) allowed a government to revalue its capital assets upon implementation of the new standard. Harris County took advantage of that option and rebuilt its capital asset records using estimated historical values. In the year of implementation of GASB 34, several capital projects in construction work in progress (CWIP) were completed and removed from the CWIP listing but those projects did not get recorded onto the existing capital assets listing.

Recommendation: Continue to enhance the control policies and procedures related to capital assets. Enhanced controls could include, but are not limited to, the following items. A department or individual should be assigned the ultimate responsibility for ownership of the process of recording capital assets. Each department should be made aware of its specific responsibilities related to identifying and recording of capital assets. Training on proper coding of capital assets and projects should be provided on a periodic basis. Reconciliations between the accounting ledgers and project information maintained by departments should be completed on a periodic basis in order to identify items to be recorded or written off. A periodic review by management of capital assets listings and activity should be performed.

Corrective Action Plan of Management: We agree with this recommendation and will continue to enhance control policies and procedures related to capital assets. Capital asset/capital project training for the departments has been developed and was presented in November, 2005. Additional training sessions are scheduled for the Employee Training Conference in October, 2006 and in early 2007.

Estimated Completion Date: Initial policies, procedures and training in place by 02/28/2007, but enhancements and training will be an on going process.

County Contact Persons: Carol Market, Director of Financial Accounting and Emily Lam-Jones, Manager of Capital Assets

HARRIS COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)**

Program	Finding/Noncompliance	Questioned Costs
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Finding 06-04 – Reportable Condition

Finding: Errors in the recording of bond premiums and accretion and the related amortization of these balances were discovered.

N/A

Cause: The amortization tables calculating the annual amortization of bond premiums and accretion were not updated to reflect changes relating to portions of bond issues that were defeased in prior years.

Recommendation: Reconcile existing debt premium, discount, accretion and related amortization balances at least annually to supporting calculation tables for accuracy. The methodology for amortization tables for new debt issuances should be approved by management and reviewed for mathematical accuracy; any changes made to previously approved schedules should also be reviewed and approved by management.

Corrective Action Plan of Management: We agree with this recommendation. We are in the process of formalizing our reconciliation and review process.

Estimated Completion Date: 02/28/2007

County Contact Persons: Carol Market, Director of Financial Accounting

Finding 06-05 – Reportable Condition

Finding: During the course of fiscal year 2006, it was discovered that the County had materially understated reserves in the previous year relating to self-funded health care coverage for its employees.

N/A

Cause: The understatement was the result of a breakdown in communication between the Office of Human Resources & Risk Management (OHRM), responsible for insurance and risk related decisions, and the County Auditor's Office, who accounts for any related liabilities.

Recommendation: Consider including specific procedures in the County Auditor's Office year end close process to request actuarial studies and other relevant information from OHRM. OHRM should provide to the County Auditor's Office on a periodic basis, no less than annually, information regarding any new contracts entered into on behalf of the County in the current year or a statement that no changes have taken place.

HARRIS COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)**

Program

Finding/Noncompliance

**Questioned
Costs**

Corrective Action Plan of Management: We agree with this recommendation. A year end closing task has been added for the County Auditor's Office to request all relevant studies and contracts needed for accurate financial reporting.

Estimated Completion Date: 02/28/2007

County Contact Persons: Carol Market, Director of Financial Accounting

HARRIS COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)**

Program	Finding/Noncompliance	Questioned Costs
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Finding 06-06 – Material Weakness

Condition: The County’s construction work in progress (CWIP) included items that did not qualify for capitalization. Some of these items have been included in CWIP for several years. Additionally, certain completed projects that should have been reclassified into other capital asset categories remained recorded in CWIP.

N/A

Criteria: The CWIP account should include those assets that will ultimately meet the County’s capitalization thresholds and policies for recording as capital assets. Those department personnel responsible for CWIP projects should identify such projects to the Capital Asset Section of the County Auditor’s Office; additionally, those department personnel should report when projects are completed so that they may be properly reclassified in the financial records. The Capital Asset Section should review appropriate documentation to conclude on the propriety of recording items into and removing items from the CWIP capital asset category.

Cause: Personnel in the County departments responsible for creation of projects eligible to be capitalized appear to not have a clear understanding of what types of expenditures should be capitalized or expensed as repairs and maintenance or other non-capital expenditures. During and subsequent to fiscal year 2007, the Capital Asset Section initiated a review of supporting documentation to verify whether projects included in CWIP were eligible to be capitalized. The most common error found related to projects for which the County will not own the completed project improvements.

Personnel in various County departments did not accurately report the status of projects in order to properly account for the CWIP transfers into fixed assets. The County has a policy in place that, when a project is 95% complete, the County department responsible for the project sends a Certificate of Substantial Completion to Commissioners Court for approval. After verifying that final payment has been approved by Commissioners Court, the Capital Asset Section reclassifies the project from CWIP to the permanent asset class (i.e.: roads, buildings, etc.) at the end of the fiscal year.

Effect: The County is not following its own policies regarding recording of CWIP. The County’s CWIP account, capital asset categories, and certain expenditures categories contained material errors which were identified and corrected by the Capital Assets Section.

Recommendation: The County Auditor’s Office should communicate

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Program

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Questioned Costs

to County departments the importance of the project set-up and project close-out procedures which require submission of executive summaries with the project set-up request and the letter of substantial completion when the project is 95% complete. Training should be provided to these departments and employees who will be involved in this process. The acceptance by the County's operating departments of these policies, procedures and training is imperative in order to make this process work.

Further, the County should have a specific section that is responsible for monitoring of CWIP projects, with support from the employees in other departments that are involved. This section would review the process as they receive information from each of the departments and would keep track of all projects. This would allow for a more timely identification and resolution of issues with CWIP projects.

Corrective Action Plan of Management: We agree with this recommendation. Financial Accounting implemented a procedure during fiscal year 2008 requiring new master project set-up requests to include an executive summary in order to be established on the financial accounting system. Capital project training is being developed by Systems and Procedures and Financial Accounting. The training will include the importance of project set-up and project close-out procedures. Also, fixed and capital asset training was offered at the employee training conference during fiscal year 2007. The Capital Asset section of Financial Accounting is responsible for the monitoring of CWIP projects including the timely identification and resolution of issues.

Estimated Completion Date: 02/29/2008

County Contact Persons: Carol Market, Director of Financial Accounting and Emily Lam-Jones, Manager of Capital Assets

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Program	Finding/Noncompliance	Questioned Costs
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Finding 06-07 – Material Weakness

Condition: The County’s capital asset records did not include certain projects for which title belongs to the County or the Flood Control District. Some of these projects started in the 1980s and 1990s. A review of the agreement terms for these projects clearly indicates that these assets become County or Flood Control District property upon completion. Specific examples include flood control projects for Sims Bayou and Clear Creek, and the South Houston Library building. Additionally, the County identified parcels of land for which the County owned the title, but which had not been recorded as capital assets.

N/A

Criteria: The financial records of the County should reflect all transactions undertaken by the County. All significant agreements, to include reimbursement contracts, local cooperation agreements, grants, or any similar agreements, entered into by the County should be reviewed by personnel of the County Auditor’s Office to assess the financial reporting implications of these agreements.

Cause: Due to the decentralized nature of County operations, agreements are negotiated by County departments and may contain provisions with financial reporting implications that the County Auditor’s Office personnel are not aware of. No clear policies and procedures exist at the County department level to ensure that the County Auditor’s Office is informed of contracts with financial reporting implications. Although existing policies within the County Auditor’s Office for review of contracts did not identify these items in the normal course of business, the Capital Asset Section initiated a review of payments to various entities for construction projects to identify unrecorded assets.

Effect: The County’s capital asset accounts contained material errors which were discovered and corrected by the Capital Assets Section.

Recommendation: The County Auditor’s Office should assess its existing policies for review of contracts and other agreements. Consider preparing detailed instructions for personnel who will perform such reviews, as well as training on the policies and the purpose of the review. Management personnel should review the work of the initial contract reviews to assure that the appropriate conclusions were reached regarding what financial accounting entries should be made to reflect the transactions identified.

Consider options for requiring County departments to communicate to the County Auditor’s Office when contracts which relate to capital

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Program	Finding/Noncompliance	Questioned Costs
	<p>assets are negotiated. The County should also consider performing a complete inventory of its capital assets, which might include retaining an outside vendor to assist in searching a variety of records for assets to which the County has title.</p> <p><u>Corrective Action Plan of Management:</u> We agree with this recommendation. The Capital Asset Section is currently developing a systematic approach for the review of contracts so that transactions are recorded timely and accurately on the financial records of the County. Financial Accounting will work with the Public Infrastructure Department and other County departments to develop a method of identifying non-standard contracts that have an impact on capital assets. The County Auditor's Office is in agreement that the County should consider performing a complete inventory of its capital assets, which might include retaining an outside vendor. The Auditor's Office will communicate this recommendation to the Public Infrastructure Department and other applicable departments.</p> <p><u>Estimated Completion Date:</u> 02/29/2008</p> <p><u>County Contact Persons:</u> Carol Market, Director of Financial Accounting and Emily Lam-Jones, Manager of Capital Assets</p>	

III. FEDERAL AND STATE AWARDS FINDINGS AND QUESTIONED COSTS SECTION

Program	Finding/Noncompliance	Questioned Cost
	<p style="text-align: center;">Finding 06-02</p>	
Federal and State programs listed below.	<p><u>Condition:</u> The Purchasing Agent's policies and procedures do not require verification that contractors hired to provide goods and services for Federal grant programs are excluded from the Federal list of suspended or debarred vendors.</p> <p><u>Criteria:</u> Executive Order #12549 (via the Common Rule) requires that grantees "Not allow a party to participate in any affected program if any Executive department or agency has debarred, suspended, or otherwise excluded (to the extent specified in the exclusion agreement) that party from participation in an affected program." The Executive Order also specifies that the federal government will maintain a list of suspended and debarred parties.</p> <p><u>Effect:</u> As contractors are not compared to suspended or debarred vendor list, it is possible that the County may be doing business with federally</p>	None

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Program	Finding/Noncompliance	Questioned Cost
	<p>excluded vendors.</p> <p><u>Cause:</u> The County has not implemented proactive procedures to identify whether potential vendors are suspended or debarred prior to contracting with them.</p> <p><u>Recommendation:</u> Implement procurement procedures to include the comparison of potential vendors against the suspended or debarred vendor list. Provide training to purchasing personnel (and other personnel to which this responsibility may be assigned) on the revised procurement procedures in order to ensure compliance with Federal laws and regulations.</p> <p><u>Corrective Action Plan of Management:</u> The Purchasing Agent will develop policies and procedures to verify the County is not doing business with federally excluded vendors. The Purchasing Agent will also provide the necessary training to personnel responsible for ensuring the policies and procedures are followed.</p> <p><u>Estimated Completion Date:</u> 02/28/2007</p> <p><u>County Contact Persons:</u> Jack R. McCown, Purchasing Agent</p>	

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FINDING 06-02

LISTING OF FEDERAL AND STATE PROGRAMS FOR FINDING 06-02

<u>CFDA NO.</u>	<u>FEDERAL PROGRAMS</u>	<u>CFDA NO.</u>	<u>FEDERAL PROGRAMS CONTINUED</u>
14.235	Supportive Housing Program	93.283	Infectious Disease - West Nile
14.231	Emergency Shelter Grant Program	93.563	Title IV-D Integrated Child Support System
14.239	HOME Investment Partnership Program	93.564	Ensuring Access, Encouraging Support
14.238	Shelter Care Plus Program	93.658	TITLE IV-E
14.218	Community Development Block Grant/Entitlement Grants	93.556	Community Youth Development
16.606	State Criminal Alien Assistance Program	93.556	STAR Program
16.000	Sheriff Seized Assets - Justice Department	07.000	Major Drug Squad
16.585	STAR - Success Through Addiction Recovery	07.000	Targeted Offenders Initiative
16.320	Human Trafficking Rescue Alliance Recovery	07.000	Currency/Narcotics Transshipment
16.710	COPS - Technology 2004	07.000	Gang & Non-Traditional Gang Squad
16.592	L.L.E.B.G.-Local Law Enforcement Block Grant	07.000	Money Laundering Initiative
16.595	Weed & Seed	07.000	Violent Crime Initiative
16.607	Bulletproof Vest Partnership Program	07.000	Methamphetamine Initiative Group
16.560	Forensic Casework DNA Backlog Reduction Program	07.000	Joint Drug Intelligence Group
16.560	DNA Enhancement Program	07.000	Truck, Air, Rail, and Port Initiative
16.737	Gang Resistant Education and Training	07.000	Houston Intelligence Support Center
16.548	Harris County Truancy Program	07.000	Domestic Highway Interdiction
16.579	STAR - Success Through Addiction Recovery	43.000	Regulating Rapidly Growing Urban Watersheds
16.593	Residential Substance Abuse Treatment	97.024	FEMA - Emergency Food & Shelter Program
16.523	Coordinated Juvenile Crime Enforcement/6	97.067	Citizens Corps
16.588	Domestic Violence Unit	97.067	Urban Area Security Initiative
16.588	Caseworker Intervention Expansion Project	97.067	Homeland Security Grant Program
16.588	Protective Order Prosecutor Project	97.036	FEMA - Public Assistance
16.588	Felony Family Violence Careworker	97.039	FEMA - Hazard Mitigation Grant Project
16.588	Police Training for Violent Crimes Against Woman	84.359	Reading is Fundamental (RIF)
16.560	Harris County Forensic Laboratory Training Program	90.401	Help America Vote Act (HAVA), Title I
16.732	Safe Schools / Healthy Students	45.164	Texas Council for Humanities
16.727	Task Force for Underage Drinking	45.164	Elizabeth I: Ruler and Legend
16.523	Training for Juvenile Justice Professionals - JAIBG	21.000	Sheriff Seized Assets
16.738	JAG - Justice Assistance Grant		
16.609	Project Safe Neighborhood		
17.258	WorkSource Services - Hurricane Katrina Project		
17.261	PAL - Transition Center		
93.558	PAL - Transition Center		
93.674	PAL - Transition Center		
20.513	Non-Emergency Transportation Services		
20.219	National Recreational Trails Program		
20.600	Driving While Intoxicated- DWI (STEP)		
10.557	WIC Supplemental Feeding		
10.553	National School Breakfast Program		
10.555	National School Lunch Program		
66.202	Unincorporated Area Revitalization Project		
66.463	Harris County BMP Effectiveness in Pollutant Reduction		
93.104	Harris County Alliance for Children & Families		
93.623	Basic Center Program for Runaway and Homeless Youth		
93.928	HRSA-Special Projects of National Significance		
93.914	Ryan White Title I - Formula & Supplemental		
93.991	BNS - Public Health Nutrition - SPAN		
93.283	Cities Readiness Initiative		
93.994	Title V - Maternal & Child Health		
93.576	Refugee Health Screening Program		
93.268	Immunization Action Plan		
93.116	Tuberculosis Elimination Division		
93.217	Title X - Family Planning		
93.000	State Legalization Impact Assistance Grant		
93.940	HIV-Prevention		
93.856	ST. Louis Encephalitis - UTMB		
93.994	Community Health Services - Population Based		
93.003	Public Health Preparedness and Response for Bioterrorism		
			<u>STATE PROGRAMS</u>
			Adult Violent Death Review Team
			Success Through Addiction Recovery (STAR)
			Crime Victims Assistance
			Cold Case Squad
			Family Violence Specialized Case Worker
			STAR - State Drug Court
			Abducted and Missing Persons Unit
			Community Outdoor Outreach Program
			Regional Ballistics Lab
			Tobacco Compliance
			Tuberculosis Elimination Division
			Childrens Health Insurance Program (CHIP)
			Regional and Local Services
			Texas Tobacco Prevention and Control
			Abstinence Education Program
			Expansion of Guardianship Program - Ward Mentor
			Texas Automobile Theft Prevention
			Loan Star Libraries Program
			Early Medical Intervention
			Texas Automated Victim Notification - VINE
			HALS Grant
			Low Income Vehicle Repair Assistance Program
			Solid Waste Implementation-Source Reduction & Recycling
			Solid Waste Implementation-Local Enforcement
			PAL - Transition Center
			Indigent Defense Formula Grant
			Runaway Investigative Unit

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IV. STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Program	Finding/Noncompliance	Questioned Cost
	Finding 05-01	
	<p><u>Finding:</u> The Harris County Sports & Convention Corporation’s (the “Corporation”), a blended component unit of Harris County, Texas (the “County”), investment activities are governed by the State of Texas Public Funds Investment Act (the “Act”). The Corporation made a \$12 million investment in the Harris County – Houston Sports Authority’s Subordinate Lien Notes Series 2001 C-1 and Series C-2 (the “Notes”) that were not in compliance with the Act, because the Notes did not receive a rating from at least one nationally recognized investment rating firm.</p>	
	<p><u>Recommendation:</u> Ensure compliance with the Act.</p>	
	<p><u>Status:</u> The Corporation has been unable to divest itself of the Notes. However, the Corporation has adopted an investment policy that prohibits future investments that do not comply with the Act.</p>	
	Finding 05-02	
HOME Investment Partnership Program	<p><u>Finding:</u> Some expenditures paid to non-subrecipients are being classified in the County’s accounting records as subrecipient expenditures.</p>	None
CFDA: 14.239	<p><u>Recommendation:</u> For the current year, expenditures should be reviewed to properly classify payments to non-subrecipients rather than as payments to subrecipients. In the future, policies and procedures should be implemented to ensure that those individuals responsible for coding grant payments are aware of the difference in definition of a non-subrecipient and a subrecipient and that the proper coding is used to record payments to these entities.</p>	
	<p><u>Status:</u> The Grant Accounting division of the Auditor’s Office along with Community & Economic Development Department continues to monitor the expenses to assure proper determination and classification of payments. A county-wide procedure related to “Subrecipient Determination” has been drafted and submitted to the Auditor’s Office Systems & Procedures division for review and approval.</p>	

HARRIS COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)

Finding 05-03

Maternal and
Child Health
CFDA: N/A
State Program

Finding: Program income collected for administering tuberculosis (TB) tests and treating TB was recorded to the Maternal and Child Health grant rather than to the TB grant. Out of 25 selections tested, 17 items did not include documentation that the individuals receiving treatment were eligible under the maternal and child health grant. As a result, the propriety of the recording of \$95 of program income could not be determined.

None

Program income was incorrectly collected. One out of 25 selections tested (for a total of \$5) was not charged the correct amount based on the participant's income level.

Recommendation: Provide training to staff at the County's clinics on the importance of retaining documentation on eligibility and program income. Procedures should be implemented to assist clinic personnel regarding how to determine amounts to be charged, where program income should be applied, and how to identify the appropriate accounts to which program income should be recorded. Additionally, there should be a review by the Department of Health management and/or grants management to ensure that documentation is appropriate and that program income items are accounted for in accordance with the program income requirements of each grant.

Status: The Auditor's Office, Grants Accounting division and Public Health & Environmental Services (PHES) have reviewed the PHES "Collection of Fees Policy" and the PHES "Financial Eligibility and Determination Policy" and have taken steps to assure these policies are being followed by PHES staff. In addition, "Eligibility In-Service" training has been scheduled by PHES for clinic staff.

HARRIS COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)**

Finding 05-04

Federal and State
programs listed
below.

Finding: The Purchasing Agent's policies and procedures do not require verification that contractors hired to provide goods and services for Federal grant programs are excluded from the Federal list of suspended or debarred vendors.

None

Recommendation: Implement procurement procedures to include the comparison of potential vendors against the suspended or debarred vendor list. Provide training to purchasing personnel (and other personnel to which this responsibility may be assigned) on the revised procurement procedures in order to ensure compliance with Federal laws and regulations.

Status: The Purchasing Agent had a clause added to all contracts that requires vendors to certify to the County any eligibility violation with Executive Order 12549, "Debarment and Suspension", regarding federal or state assistance programs.

HARRIS COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED FEBRUARY 28, 2006 (Revised)

FINDING 05-04

LISTING OF FEDERAL AND STATE PROGRAMS FOR FINDING 05-04

FEDERAL PROGRAMS

<u>CFDA NO.</u>	<u>PROGRAM</u>
14.235	Supportive Housing Program
14.231	Emergency Shelter Grant Program
14.239	HOME Investment Partnership Program
14.238	Shelter Care Plus Program
14.218	Community Development Block Grant/Entitlement Grants
16.606	State Criminal Alien Assistance Program
16.000	Sheriff Seized Assets - Justice Department
16.585	STAR - Success Through Addiction Recovery
16.710	COPS - Technology 2004
16.592	L.L.E.B.G.-Local Law Enforcement Block Grant
16.595	Weed & Seed
16.607	Bulletproof Vest Partnership Program
16.548	Harris County Truancy Program
16.579	STAR - Success Through Addiction Recovery
16.593	Residential Substance Abuse Treatment
16.523	Coordinated Juvenile Crime Enforcement/6
16.593	Residential Substance Abuse Treatment
16.588	Caseworker Intervention Expansion Project
16.588	Protective Order Prosecutor Project
16.588	Felony Family Violence Careworker
16.588	Police Training for Violent Crimes Against Woman
16.564	No Suspect Casework DNA Backlog Reduction Program
16.595	Social, Academic, Fine Arts and Recreation Program - SAFR
16.523	Training for Juvenile Justice Professionals - JAIBG
16.732	Charm and Etiquette Enhancement Youth Program
20.513	Non-Emergency Transportation Services
20.513	Elderly and Disabled Transportation Program
20.219	National Recreational Trails Program
20.600	Driving While Intoxicated- DWI (STEP)
10.557	WIC Supplemental Feeding
10.553	National School Breakfast Program
93.623	Basic Center Program for Runaway and Homeless Youth
93.197	Childhood Lead Poison
93.914	Ryan White Title I - Formula & Supplemental
93.991	SPAN - School Physical Activity and Nutrition
93.991	Office of Regional Program
93.576	Refugee Health Screening Program
93.268	Immunization Action Plan
93.116	Tuberculosis Elimination Division
93.217	Family Planning
93.940	HIV-Prevention
93.856	ST. Louis Encephalitis - UTMB
93.940	HIV PCPE/HERR-Counseling
93.003	Public Health Preparedness and Response for Bioterrorism
93.283	Infectious Disease - West Nile
93.563	Title IV-D Integrated Child Support System
93.658	TITLE IV-E CPS
93.658	TITLE IV-E LEGAL SERVICES
93.556	Community Youth Development
93.556	STAR Program
07.000	Major Drug Squad
07.000	Targeted Offenders Initiative
07.000	Currency/Narcotics Transshipment
07.000	Gang & Non-Traditional Gang Squad
07.000	Money Laundering Initiative

FEDERAL PROGRAMS CONTINUED

<u>CFDA NO.</u>	<u>PROGRAM</u>
07.000	Violent Crime Initiative
07.000	Methamphetamine Initiative Group
07.000	Joint Drug Intelligence Group
43.000	Regulating Rapidly Growing Urban Watersheds
97.067	Urban Area Security Initiative Part II
97.067	State Domestic Preparedness Equipment Support Program
97.067	Citizens Corps
97.054	FY 03 - Community Emergency Response Teams (CERT)
97.039	FEMA - Hazard Mitigation Grant Project
97.036	FEMA - TS Allison Public Asst.-Response & Recovery
97.029	FEMA - Flood Mitigation Assistance
97.039	FEMA - Hazard Mitigation Grant Project
97.039	FEMA - Hazard Mitigation Grant Project
84.359	Reading is Fundamental (RIF)
39.011	Help America Vote Act (HAVA), Title I
21.000	Sheriff Seized Assets
21.053	G.R.E.A.T. Program

STATE PROGRAMS

PROGRAM

Adult Violent Death Review Team
Success Through Addiction Recovery (STAR)
Crime Victims Assistance
Cold Case Squad
Family Violence Specialized Case Worker
STAR - State Drug Court
Regional Ballistics Lab
Tobacco Compliance
Tuberculosis Elimination Division
Childrens Health Insurance Program (CHIP)
Maternal & Child Health
Texas Tobacco Prevention Pilot Program
Maternal & Child Health PTB
Non-Emergency Medical Transportation Program
Texas Automobile Theft Prevention Authority
Loan Star Libraries Program
HALS - Staff Development Grant
HALS - Between The Lions Grant
HALS Grant
Low Income Vehicle Repair Assistance Program
Solid Waste Implementation-Source Reduction & Recycling
Solid Waste Implementation-Local Enforcement
Tele-Legal Education Project
Indigent Defense Formula Grant