

Harris County Flood Control District
A Component Unit of Harris County, Texas

Basic Financial Statements



**For the Fiscal Year Ended
February 28, 2007**

***Harris County Flood Control District
A Component Unit of Harris County,
Texas***

*Basic Financial Statements and Single Audit
for the Fiscal Year Ended February 28, 2007
And Independent Auditors' Report*

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 28, 2007**

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October 23, 2007

Honorable District Judges of Harris County and
Honorable Members of the Harris County Commissioners Court

The Harris County Auditor's Office (the "Auditor's Office") is pleased to present the Basic Financial Statements of Harris County Flood Control District (the "District"), a component unit of Harris County, Texas (the "County") for the fiscal year ended February 28, 2007. This report is submitted in accordance with Section 114.025 of the Texas Local Government Code and was prepared by the staff of the County Auditor's Office.

The report consists of management's representations concerning the finances of the District. Therefore, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. We believe the information and data contained herein are accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District in accordance with generally accepted accounting principles in the United States of America ("GAAP"). All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included, beginning with Management's Discussion and Analysis ("MD&A") on page 9.

Management of the District has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

The District's financial statements were audited by Deloitte & Touche LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for fiscal year ended February 28, 2007 are free of material misstatement. The independent auditor concluded based upon the audit that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the District's financial statements includes a broader, federally mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are available in the compliance section of this report.

PROFILE OF THE DISTRICT

History, Geographic Location, and Population

After experiencing devastating floods in 1929 and 1935, local Harris County leaders petitioned the Texas Legislature for assistance. On April 23, 1937, the Texas Legislature passed a bill creating the Harris County Flood Control District (a special purpose district) and establishing the Harris County Commissioners Court as the District's governing body.

The District's area of jurisdictional authority is Harris County. Harris County is located in the Gulf Coast region of Texas approximately 50 miles from the Gulf of Mexico and covers over 1,700 square miles with nearly 3.9 million residents.

District Structure and Services

The District is organized into four main divisions: Communications, Operations, Administrative Services and Infrastructure. The District employs a staff of about 380 with engineering design, construction and routine maintenance generally outsourced.

The District's mission is to provide flood damage reduction projects that work with appropriate regard for community and natural values. Risk of flood damage is reduced by devising storm water management plans, implementing the plans and maintaining the infrastructure.

Budget Process

In accordance with Chapter 111 of the Local Government Code, the County prepares and adopts an annual operating budget which serves as a financial plan for the District for the new fiscal year beginning March 1. After adoption of the budget by Commissioners Court, the County Auditor is responsible for ensuring expenditures are made in compliance with budgeted appropriations. The level of budgetary control for the General Fund is at the fund level; for other funds budgetary control is implemented at various levels. For example, budgetary control for debt service funds is at the individual bond issue level and budgetary control for special revenue funds is at the fund level. Commissioners Court may transfer available funds between various departments. However, no transfer may increase the total appropriation of a fund. Commissioners Court may also adopt supplemental budgets for the limited purposes of spending grant or aid money or for capital projects through the issuance of bonds. Purchase orders and contracts are not valid until the County Auditor certifies availability of funds for payment of the obligation. Encumbrance accounting is utilized to ensure effective budgetary control and accountability, and unencumbered appropriations lapse at year-end.

INFORMATION USEFUL IN ASSESSING ECONOMIC CONDITION

Local Economy

Harris County currently enjoys a favorable economic environment. This is primarily attributable to expansion and diversification away from the oil and gas industry subsequent to a recovery from a major recession in 1982 and growth in high technology industries, medical research, health care and professional services. The County's traditional dependence on the energy sector is projected to continue to decrease since economic expansion is also fueled by the County's proximity to the Gulf of Mexico, as well as by the important role the area plays as a major manufacturing, shipping, and tourism center. Substantial structural alteration of the County's economy has reduced its vulnerability to downturns in upstream energy, which nonetheless continues to influence the County far more than it does the nation as a whole. However, the primary factors that will influence the County's economic future are: the health of the national economy, energy prices, and the value of the dollar against major foreign countries.

Today, Harris County's economy is largely based on a broad spectrum of industries including:

- Oil and gas exploration
- Basic petroleum refining
- Petrochemical production
- Medical research and health care delivery
- High technology – computers, aerospace, environmental, etc.
- Government – city, county, state and federal (i.e. NASA)
- International import & export
- Commercial fishing
- Agriculture
- Education
- Banking and finance
- Manufacturing and distribution
- Related service industries

Harris County continues to diversify its economy from its traditional concentration in the energy sector. Much of the recent growth in the economy has come from the trade, transportation, utilities and professional and business services sectors. Since 1995, the services sector of the economy has provided 85 percent of the growth in Houston employment. Harris County continues to be a favorable location for business with 24 of the Fortune 500 companies headquartered in the eight-county Houston-Galveston-Brazoria Consolidated Metropolitan Statistical Area ("Houston MSA").

Catalysts for growth in Harris County, the Port of Houston and the Houston Ship Channel are vibrant components of the regional economy. The Port of Houston is ranked first in the U.S. in foreign waterborne commerce, second in total tonnage, and tenth in the world overall. The Port of Houston handled over 200 million tons of cargo and 7550 vessels in 2006. Two major railroads and numerous trucking lines connect the Port with the rest of the United States, Mexico and Canada. In November 1999, Harris County voters approved a \$387 million bond issue for the construction of a new container facility at the Port's Bayport Terminal. The opening phase of the project celebrated its grand opening in February 2007. The Bayport facility is expected to generate almost 12,000 jobs in its first ten years of operation and to generate nearly \$1 billion in new business revenues annually.

In addition to the County's moderate climate and diverse economic base, it offers a modern and efficient infrastructure for people working and doing business in the County. This includes a local government that encourages business development, high capacity freeways, major rail lines, three major airports (George Bush Intercontinental, Houston Hobby, and Ellington Field) and telecommunication services that are state of the art. In January 2004, a 7.5-mile light rail line was completed, linking Houston's Central Business District, the Museum District, the Texas Medical Center, and Reliant Stadium. In 2003, voters approved a \$640 million bond issue for an additional 22-mile expansion of the light rail system.

Harris County is the nation's third most populous county, ranking behind Los Angeles County and Cook County. The County's population base includes a wide variety of racial and ethnic groups that give a rich diversity and cosmopolitan feel. Among the nation's largest metropolitan areas, the Houston MSA ranked fifth in Hispanic population and tenth in Asian and Pacific Islander population in 2005. No racial or ethnic group constitutes a majority of the population.

Educational opportunities play a key role in Harris County's quality of life. The County has a number of acclaimed school districts and outstanding colleges and universities. Major institutions of higher learning include Rice University, Texas Southern University, University of Houston, University of St. Thomas and Houston Baptist University. Houston's two medical schools are the University of Texas Medical School and

Baylor College of Medicine. Houston area colleges and universities granted 31,758 bachelor, master, doctoral and professional degrees during the 2005-2006 academic year.

Financial Policies and Long-Term Financial Planning

The County's financial policies also apply to the District. The County continued to enjoy a favorable financial environment during the fiscal year. Some of the County's financial policies are:

- Expenditures are to be budgeted and controlled so that at the end of the fiscal year the minimum designated fund balance for the general fund and other operating funds will be no less than 15% of fiscal year expenditures;
- Balanced financial operations will be maintained;
- Department heads and business managers are to keep expenditures within allocated budget amounts;
- Full disclosure and open lines of communications will be provided for rating agencies. A continuing goal is continuation and a possible upgrade of 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+;
- Tax anticipation notes for annual cash flow purposes will be issued for the general operating fund;
- Commercial paper is utilized to take advantage of short-term interest rates during interim financing for voter authorized and other court approved projects rather than initially issuing long-term bonds;
- The County's investment policy has been adopted to establish policies and procedures that enhance opportunities for a prudent and systematic investment of County funds. The County's general objectives in investing its funds are; understanding the suitability of the investment to the financial requirements of the County, preservation and safety of principal, liquidity, marketability of the investment, diversification, and yield. The "prudent person" standard has been adopted for managing the portfolio for the County. To ensure safety of public funds, the policy adheres to Chapter 2256 of the Texas Government Code, The Public Funds Investment Act, and the statutory requirements of Local Government Code 116.112.

The County is responsible for setting the tax rates for the District. Tax rates are levied for maintenance and operations and debt service requirements relative to General Obligation Bonds. The respective tax rates which were adopted in 2006 for the District per \$100 of taxable value are: \$0.02733 for maintenance and operations and \$0.00508 for debt service, for a total of \$0.03241.

District funds available for investment under the County's investment program as of February 28, 2007 totaled \$273.9 million with investment earnings of \$8.9 million. The average yield and maturity of such investments were 4.76% and 445 days.

The County's Risk Management Department is responsible for assessing the District's exposure to risk and obtaining coverage against that risk. The District is self-insured for group medical benefits as well as for workers' compensation medical and indemnity payments and is self-funded for dental and vision coverage provided under the employees' health insurance program. Additional information regarding the County's risk management program can be found in Note 10 of the notes to the financial statements.

The County provides retirement, disability, and death benefits for all the District's full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). 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 employer based on the covered payroll of employee members. Under the TCDRS Act, the County's contribution rate is actuarially determined annually. The contribution rate payable by the employee members for fiscal year 2007 was 7%. In addition to providing retirement benefits, the County provides certain healthcare and life insurance benefits for retired employees. Additional information regarding the County's retirement plan and other post employment benefits can be found in Notes 7 and 8 of the notes to the financial statements.

Major Initiatives

The District plans to spend \$366 million of available funds for ongoing and planned projects for the five-year period from FY 2008 to FY 2012. The District's partnership with the Federal Government through the U.S. Army Corps of Engineers and FEMA is anticipated to form the foundation of the District's Capital Improvements program for the next fifteen years or more.

ACKNOWLEDGMENTS

I wish to express my gratitude to the Commissioners Court, District Judges, and other County and District officials and departments for their interest and support in planning and conducting the financial affairs of the District in a responsible and professional manner.

REQUEST FOR INFORMATION

This financial report is designed to provide an overview of the District's finances for individuals who are interested in this information. Questions concerning any of the data provided in this report should be addressed to the County Auditor's Office, 1001 Preston Suite 800, Houston, Texas 77002. Additional financial information is provided on the County Auditor's webpage which can be accessed from the County's website, www.co.harris.tx.us.

Barbara J. Schott, C.P.A.
County Auditor



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harris County Flood Control District (the "District"), a component unit of Harris County, Texas (the "County") as of and for the year ended February 28, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of February 28, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Schedule of Revenue and Expenditures – Budget and Actual – Budgetary Basis – Operations and Maintenance (General) Fund are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's financial statements. The Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and*

Non-Profit Organizations. This schedule is the responsibility of the District's management. This schedule has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is also the responsibility of the District's management. The supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2007, on our consideration of the District'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

October 23, 2007

***Harris County Flood Control District
Management's Discussion and Analysis
(Unaudited)***

This section of the Harris County Flood Control District's (the "District") financial statements presents management's discussion and analysis ("MD&A") of the financial activities of the District during the fiscal year ended February 28, 2007. Please read it in conjunction with the District's basic financial statements following this section.

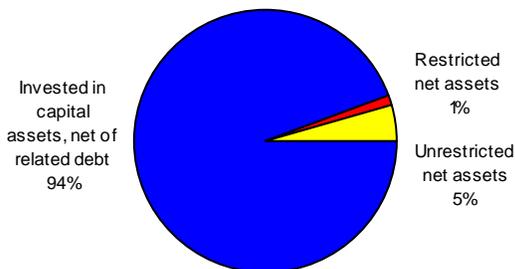
The District is a component unit of Harris County, Texas (the "County") and is included as a blended component unit in the County's financial statements. This analysis presents information about the District and the operations and activities of the District only and is not intended to provide information about the entire County.

FINANCIAL HIGHLIGHTS

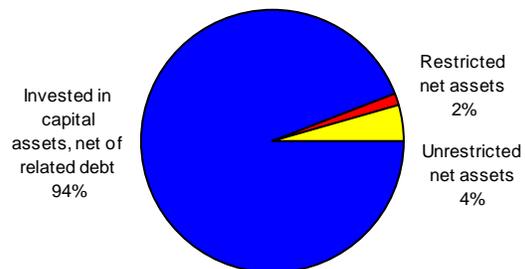
Government-wide

- The total government-wide assets of the District exceeded the liabilities (net assets) at February 28, 2007 by \$1,561,575,878. This is comparable to the previous year when assets exceeded liabilities by \$1,521,344,479.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$1,473,836,526 include land, improvements, construction in progress and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets. Invested in capital assets, net of related debt remained unchanged at 94% of total net assets.
 - (2) Net assets of \$19,001,017 are restricted by constraints imposed from outside the District such as debt obligations. Restricted net assets decreased from 2% to 1% of total net assets.
 - (3) Unrestricted net assets of \$68,738,335 represent the portion available to meet ongoing obligations to citizens and creditors. The increase from 4% to 5% of total net assets is primarily due to a decrease in restricted net assets.

NET ASSETS BY CATEGORY
February 28, 2007



NET ASSETS BY CATEGORY
February 28, 2006



***Harris County Flood Control District
Management's Discussion and Analysis
(Unaudited)***

Fund Level

- As of February 28, 2007, the District's governmental funds reported combined fund balances of \$273,308,577. This compares to the prior year combined fund balance of \$210,177,844 showing an increase of \$63,130,733 during the current year. The combined unreserved fund balance of \$186,414,348 for fiscal year 2007 shows an increase of \$76,845,313 over the prior year. These increases were primarily attributable to a decrease in reserves for encumbrances and increases in cash and investments resulting from the issuance of bonds.
- At the end of the fiscal year, the total fund balance for the Operations and Maintenance (General) fund was \$75,493,163. The unreserved fund balance was \$49,784,046 or 57.6% of total general fund expenditures and 78.8% of total general fund revenues. The General fund had a reserved fund balance of \$25,709,117 which is set aside for encumbrances, debt service and prepaids. An increase in expenditures was the primary reason total fund balance decreased by \$1,801,946 this year.
- The fund balance in the Debt Service fund of \$15,901,210 was fully reserved at the end of the fiscal year. This represents an increase of \$660,952 from the prior year balance of \$15,240,258. Revenues, primarily from taxes, declined by \$887,140 and expenditures decreased by \$2,343,634 primarily due to issuance of refunding bonds.
- The Capital Projects fund at fiscal year end had an unreserved fund balance of \$136,630,302 and a reserved fund balance of \$45,283,902 for a total Capital Projects fund balance of \$181,914,204 up from \$117,642,477 in the prior year. This increase is primarily due to issuance of improvement bonds in the current year.
- The District issues debt to finance an ongoing capital improvement program, and during fiscal year 2007, issued \$183,785,000 in bonds and \$45,520,000 in commercial paper. Note 6 to the financial statements, provides additional details related to long-term debt. The debt service ad-valorem tax rate for the 2006 tax year for the District totaled \$0.00508 per \$100 valuation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements, which are comprised of 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.

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

The statement of net assets presents information on all District assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other non-financial factors should also be considered to assess the overall fiscal health of the District.

The statement of activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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.

***Harris County Flood Control District
Management's Discussion and Analysis
(Unaudited)***

Typically, both of these government-wide financial statements would distinguish functions of the reporting entity principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (business-type activities). The District, however, has and reports only governmental activities.

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 District, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. Funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. However, the District has four governmental funds and one fiduciary fund.

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 funds 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 District'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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. As all of these funds are considered major funds, information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for each of the funds – Operations and Maintenance (General), Special Revenue Grants, Debt Service, and Capital Projects.

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 District's own programs. The District uses one agency fund to report resources held by the District in a purely custodial capacity (assets and liabilities) and therefore do not involve the 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 25 of this report.

Required Supplementary Information is presented concerning the District's Operations and Maintenance (General) Fund budgetary schedule. The District adopts an annual budget for this fund. A budgetary comparison schedule, which includes the original and final amended budgets and actual figures, has been provided to demonstrate compliance with these budgets. Required supplementary information can be found beginning on page 45 of this report.

***Harris County Flood Control District
Management's Discussion and Analysis
(Unaudited)***

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,561,575,878 for fiscal year ended 2007 and \$1,521,344,479 for fiscal year 2006. Net assets increased primarily due to an increase in capital assets. For further information regarding the increase in capital assets see Note 5 to the financial statements.

**Condensed Statement of Net Assets
(Amounts in thousands)**

	Governmental Activities	
	February 28, 2007	February 28, 2006
Current and other assets	\$ 312,028	\$ 237,638
Capital Assets	1,887,900	1,796,188
Total assets	<u>2,199,928</u>	<u>2,033,826</u>
Current and other liabilities	32,059	29,750
Long-term liabilities	606,293	482,732
Total liabilities	<u>638,352</u>	<u>512,482</u>
Net assets:		
Invested in capital assets, net of related debt	1,473,837	1,431,526
Restricted net assets	19,001	22,629
Unrestricted net assets	68,738	67,189
Total net assets	<u>\$ 1,561,576</u>	<u>\$ 1,521,344</u>

The largest portion of the District's current fiscal year net assets, \$1,473,836,526 or 94% of the total, reflects its investments in capital assets (e.g. land, improvements, buildings, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The main use of these capital assets is to provide services to citizens; consequently, these assets are not available for future spending. Although the District'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 \$42,310,848 in the District's net assets invested in capital assets, net of related debt is comprised of a \$91,711,912 increase in capital assets with an offsetting increase of \$122,715,123 in debt related to capital assets and an increase of unspent debt proceeds of \$73,314,059.

1% of the District's current fiscal year net assets represent resources that are subject to external restrictions on how they may be used. Restricted net assets totaled \$19,001,017 with \$7,906,381 restricted for capital projects and \$11,094,636 restricted for debt service. Due to decreased outside funding for joint projects and a minor increase in the restricted for debt service in the current year, restricted net assets reflect an overall decrease of \$3,628,332.

The remaining balance of the District's current fiscal year net assets, 5% or \$68,738,335 represents unrestricted net assets, which may be used by the District for current and future needs.

At the end of the current fiscal year, the District reported positive balances in all three categories of net assets for its separate governmental activities.

***Harris County Flood Control District
Management's Discussion and Analysis
(Unaudited)***

The following table indicates changes in net assets for governmental activities:

**Condensed Statement of Activities
(Amounts In Thousands)**

	Governmental Activities	
	For the Year Ended February 28, 2007	For the Year Ended February 28, 2006
Revenues:		
Program revenues:		
Charges for services	\$ 849	\$ 1,008
Operating grants and contributions	19,913	22,734
Capital grants and contributions	43,581	47,310
General revenues:		
Property taxes	72,491	66,061
Earnings on investments	8,952	6,207
Miscellaneous	341	904
Gain on sale of capital assets	-	534
Total revenues and other items	<u>146,127</u>	<u>144,758</u>
Expenses:		
Flood control	84,383	84,205
Tax administration	490	441
Interest on long-term debt	20,802	19,435
Loss on sale of capital assets	220	-
Total expenses and other items	<u>105,895</u>	<u>104,081</u>
Change in net assets	40,232	40,677
Net assets - beginning	1,521,344	1,480,667
Net assets - ending	<u>\$ 1,561,576</u>	<u>\$ 1,521,344</u>

Revenues

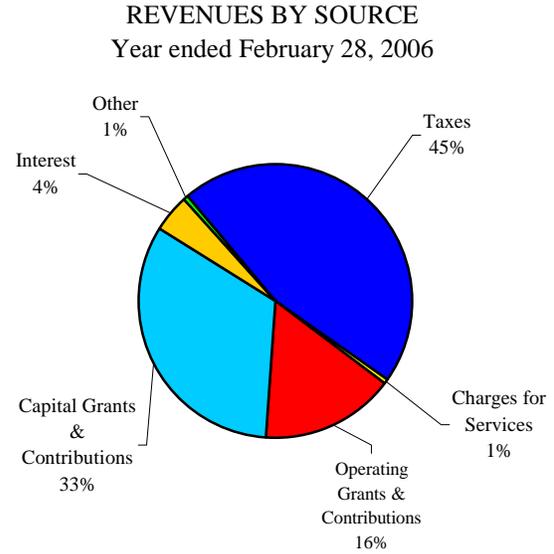
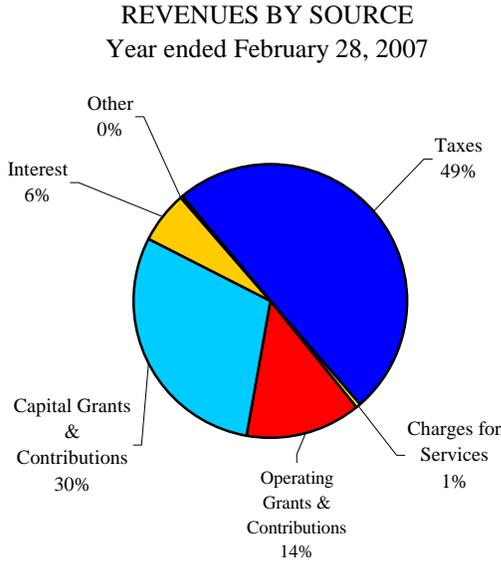
For fiscal year ended February 28, 2007, revenues from governmental activities totaled \$146,126,864.

Property taxes of \$72,490,471 were the District's largest revenue source and comprised 49% of total revenues. The tax rate was \$.03241 per \$100 of assessed value for fiscal year 2007 and \$.03322 per \$100 of assessed value for fiscal year 2006. The assessed value increased in fiscal year 2007 to \$291,343,499,000 from \$267,364,118,000 in fiscal year 2006.

Program revenues are derived from the program itself and reduce the cost of the function to the District. Total program revenues were \$64,343,004 or 45% of total revenues. A major portion of program revenues are capital grants and contributions of \$43,580,976 (30%) and represent receipts primarily from Federal Emergency Management Agency (FEMA) and the Army Corps of Engineers. The second largest portion of program revenues consists of operating grants and contributions of \$19,913,162 (14%), associated with contributions by Harris County and state grant programs. Another portion of program revenues is charges for services of \$848,866 (1%), which are primarily from impact fees on development.

General revenues are revenues that can not be assigned to a specific function. They consist of property taxes (discussed above), unrestricted investment or interest earnings of \$8,952,065 (6% of total revenues), miscellaneous income of \$341,324 (less than 1% of total revenues). Miscellaneous income is primarily comprised of collections for various fees.

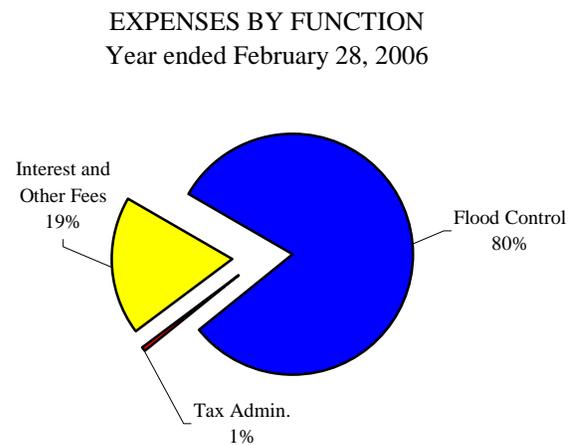
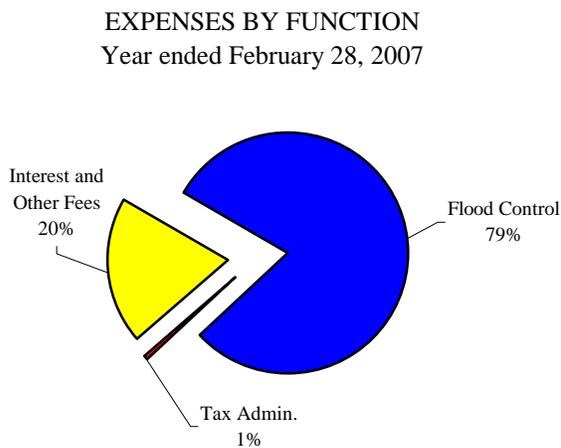
**Harris County Flood Control District
Management's Discussion and Analysis
(Unaudited)**



Expenses

For fiscal year ended February 28, 2007, expenses for governmental activities totaled \$105,895,465, compared to \$104,080,749. The percentages of the total expenses by function reflect slight changes from the prior year.

Flood control administration \$84,382,905 is the District's largest function with 79% of total expenses. This was an increase from the prior year of \$177,847, due to regular operations of the District. Interest and other fees makes up the second largest category of expenses with \$21,022,421 or 20% of the total up from \$19,434,892 last year. The major portion of this category is interest on long term debt of \$20,802,096 and the remainder being loss on sale of capital assets of \$220,325. Tax administration, which represents the cost to collect taxes assessed on behalf of the District by the Harris County Tax Assessor is \$490,139 or approximately 1% of total expenses and has increased from \$440,799 last year.



***Harris County Flood Control District
Management's Discussion and Analysis
(Unaudited)***

FINANCIAL ANALYSIS OF MAJOR FUNDS

Governmental Funds. The District's major general government functions are contained in the Operations and Maintenance (General) fund. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At February 28, 2007, the District's governmental funds reported combined fund balances of \$273,308,577, of which \$68,553,904 is reserved for encumbrances, \$18,330,979 is reserved for debt service, and \$9,346 is reserved for prepaids. The remainder, \$186,414,348, is available to meet the District's current and future needs. The District's combined fund balances increased \$63,130,733. The reasons for this change are explained below by individual fund.

The Operating and Maintenance (General) fund is the operating fund of the District. Fund balance in the General Fund decreased by \$1,801,946. This was primarily the result of an increase in debt service expenditures due to the issuance of new bonds.

The Special Revenue Grants fund accounts for grants that have been awarded in the District's name. There is no fund balance in grant funds. However, the overall grant activity for the current fiscal year resulted in a \$3,366,520 increase in assets and liabilities over the previous fiscal year.

Fund balance in the Debt Service fund increased by \$660,952, primarily as the result of issuance of new debt. At February 28, 2007, this fund reported revenues of \$12,342,388. The majority of these revenues were from property taxes. See Note 3 to the financial statements and Schedule 4 for additional information on property taxes.

The fund balance in the Capital Projects fund increased by \$64,271,727, which was due to issuance of improvement bonds and commercial paper. The Capital Projects fund relies primarily on the issuance of bonds and commercial paper to support current and future projects. The funding for projects was provided through bond issues, commercial paper and joint funded projects with outside agencies. See Note 6 to the financial statements for further discussion of long term debt.

OPERATING AND MAINTENANCE (GENERAL) FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a \$225,656,674 increase in available resources and appropriations due to issuance of refunding bonds and commercial paper activities.

During the year actual revenues exceeded budgetary estimates by \$2,148,349. This is attributable to unanticipated property tax revenues. Actual expenditures were less than budgetary estimates by \$74,760,525. This is primarily due to fewer expenditures than anticipated in the general operating flood control account. The net effect of under-realization of revenues and appropriations resulted in a positive variance of \$76,908,874, thus eliminating the need to draw upon the existing fund balance on a cash basis.

***Harris County Flood Control District
Management's Discussion and Analysis
(Unaudited)***

CAPITAL ASSETS

The District's capital assets, net of accumulated depreciation for its governmental activities as of February 28, 2007, amounted to \$1,887,899,727. These capital assets include land, improvements, buildings, flood control infrastructure, equipment, and construction in progress, as shown in the table below. For further information regarding capital assets, see Note 5 to the financial statements.

	Balance February 28, 2007	Balance February 28, 2006
Governmental Activities:		
Land	\$ 1,415,972,676	\$ 1,369,292,587
Construction in Progress	157,757,919	158,053,574
Buildings	12,805,758	3,330,706
Equipment	8,391,369	7,635,387
Flood Control Projects	482,903,327	433,628,493
	<u>2,077,831,049</u>	<u>1,971,940,747</u>
Less Accumulated Depreciation	(189,931,322)	(175,752,932)
Totals	<u><u>\$ 1,887,899,727</u></u>	<u><u>\$ 1,796,187,815</u></u>

LONG-TERM DEBT

At February 28, 2007, the District had total long-term liabilities outstanding of \$606,292,584. Refer to Note 6 to the financial statements for further information on the District's long term debt. District officials, citizens, and investors will find the ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita as useful indicators of the District's debt position; this information is shown in the statistical section of this report.

	Outstanding at February 28, 2007	Outstanding at February 28, 2006
Governmental Activities:		
Bonds Payable	\$ 581,970,687	\$ 403,967,127
Commercial Paper Payable	23,945,000	78,425,000
Compensatory Time Payable	346,897	340,196
Judgments Payable	30,000	-
Totals	<u><u>\$ 606,292,584</u></u>	<u><u>\$ 482,732,323</u></u>

ECONOMIC FACTORS

The unemployment rate for Harris County for calendar year 2006 was 4.0%. This is a favorable decrease from the prior year rate of 5.4%. The state unemployment rate for calendar year 2006 was 4.1%. The number of people employed with the District increased by 20 during the year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District'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 FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
February 28, 2007

	Governmental Activities
ASSETS	
Cash and investments:	
Cash and cash equivalents	\$ 72,740,944
Investments	208,715,370
Receivables:	
Taxes, net	3,281,839
Accounts	9,494,993
Accrued interest	999,864
Other	9,139,806
Due from primary government	1,178,119
Prepays and other assets	9,346
Restricted cash and cash equivalents	1,280,359
Restricted investments	1,149,410
Deferred charges	4,037,644
Capital assets:	
Land and construction in progress	1,573,730,595
Other capital assets, net of depreciation	314,169,132
Total assets	2,199,927,421
LIABILITIES	
Liabilities:	
Vouchers payable	11,510,584
Accrued payroll and compensated absences	1,679,577
Retainage payable	2,693,467
Due to primary government	8,265,682
Accrued interest	7,909,649
Long-term liabilities:	
Due within one year:	
Bonds payable	16,503,052
Commercial paper payable	2,176,818
Compensated absences	218,545
Due in more than one year:	
Bonds payable	565,467,635
Judgments payable	30,000
Commercial paper payable	21,768,182
Compensated absences	128,352
Total liabilities	638,351,543
NET ASSETS	
Invested in capital assets, net of related debt	1,473,836,526
Restricted for debt service	11,094,636
Restricted for capital projects	7,906,381
Unrestricted	68,738,335
Total net assets	\$ 1,561,575,878

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF ACTIVITIES
For The Year Ended February 28, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental activities:					
Flood control administration	\$ 84,382,905	\$ 848,866	\$ 19,913,162	\$ 43,580,976	\$ (20,039,901)
Tax administration	490,139	-	-	-	(490,139)
Interest on long-term debt	20,802,096	-	-	-	(20,802,096)
Total governmental activities	<u>\$ 105,675,140</u>	<u>\$ 848,866</u>	<u>\$ 19,913,162</u>	<u>\$ 43,580,976</u>	<u>(41,332,136)</u>
General revenues:					
Taxes:					
Property taxes levied for general purposes					60,786,756
Property taxes levied for debt service					11,703,715
Earnings on investments					8,952,065
Miscellaneous					341,324
Loss on sale of capital assets					(220,325)
Total general revenues and other items					<u>81,563,535</u>
Change in net assets					40,231,399
Net assets - beginning					<u>1,521,344,479</u>
Net assets - ending					<u>\$ 1,561,575,878</u>

See notes to the financial statements.

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
February 28, 2007

	Operations and Maintenance (General)	Special Revenue Grants	Debt Service	Capital Projects	Total 2007
ASSETS					
Cash and investments:					
Cash and cash equivalents	\$ 24,632,132	\$ -	\$ 616,106	\$ 47,492,706	\$ 72,740,944
Investments	50,998,284	158,187	14,543,296	143,015,603	208,715,370
Receivables:					
Taxes, net	2,608,533	-	673,306	-	3,281,839
Accounts	-	2,245,143	-	7,249,850	9,494,993
Accrued interest	343,423	1,066	7,055	648,320	999,864
Other	2,510,825	6,076,944	552,037	-	9,139,806
Due from other funds	-	200,001	-	-	200,001
Due from primary government	987,192	-	182,716	8,211	1,178,119
Prepays and other assets	9,346	-	-	-	9,346
Restricted cash and cash equivalents	1,280,359	-	-	-	1,280,359
Restricted investments	1,149,410	-	-	-	1,149,410
Total assets	<u>\$ 84,519,504</u>	<u>\$ 8,681,341</u>	<u>\$ 16,574,516</u>	<u>\$ 198,414,690</u>	<u>\$ 308,190,051</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Vouchers payable	\$ 4,479,630	\$ 415,659	\$ -	\$ 6,615,295	\$ 11,510,584
Accrued payroll and compensated absences	1,679,577	-	-	-	1,679,577
Retainage payable	258,278	-	-	2,435,189	2,693,467
Due to other funds	-	-	-	200,001	200,001
Due to primary government	-	8,265,682	-	-	8,265,682
Deferred revenue	2,608,856	-	673,306	7,250,001	10,532,163
Total liabilities	<u>9,026,341</u>	<u>8,681,341</u>	<u>673,306</u>	<u>16,500,486</u>	<u>34,881,474</u>
Fund balances:					
Reserved for:					
Encumbrances	23,270,002	-	-	45,283,902	68,553,904
Debt service	2,429,769	-	15,901,210	-	18,330,979
Prepays	9,346	-	-	-	9,346
Unreserved	49,784,046	-	-	136,630,302	186,414,348
Total fund balances	<u>75,493,163</u>	<u>-</u>	<u>15,901,210</u>	<u>181,914,204</u>	<u>273,308,577</u>
Total liabilities and fund balances	<u>\$ 84,519,504</u>	<u>\$ 8,681,341</u>	<u>\$ 16,574,516</u>	<u>\$ 198,414,690</u>	<u>\$ 308,190,051</u>

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
February 28, 2007**

Total fund balances for governmental funds \$ 273,308,577

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	\$ 1,415,972,676	
Construction in progress	157,757,919	
Flood control projects, net of \$183,568,810 accumulated depreciation	299,334,517	
Buildings, net of \$1,400,943 accumulated depreciation	11,404,815	
Equipment and vehicles, net of \$4,961,569 accumulated depreciation	<u>3,429,800</u>	
Total capital assets (See Note 5)		1,887,899,727

Long-term liabilities applicable to the Flood Control District'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 and long-term - are reported in the statement of net assets.

Balances as of February 28, 2007 were:

Accrued interest on bonds	(7,909,649)	
Bonds payable	(581,970,687)	
Judgments payable	(30,000)	
Deferred charges	4,037,644	
Commercial paper payable	(23,945,000)	
Compensated absences	<u>(346,897)</u>	
		(610,164,589)

Some of the District'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.

		<u>10,532,163</u>
Total net assets of governmental activities		<u><u>\$ 1,561,575,878</u></u>

See notes to the financial statements.

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended February 28, 2007

	Operations and Maintenance (General)	Special Revenue Grants	Debt Service	Capital Projects	Total 2007
REVENUES					
Taxes	\$ 59,995,908	\$ -	\$ 11,779,309	\$ -	\$ 71,775,217
Intergovernmental	86,611	15,065,906	-	7,042,256	22,194,773
Lease revenue	188,999	-	-	-	188,999
Earnings on investments	2,789,178	1,281	556,239	5,605,367	8,952,065
Miscellaneous	147,772	-	6,840	846,579	1,001,191
Total revenues	<u>63,208,468</u>	<u>15,067,187</u>	<u>12,342,388</u>	<u>13,494,202</u>	<u>104,112,245</u>
EXPENDITURES					
Current operating:					
Flood control administration	58,611,400	65,258	-	8,044,701	66,721,359
Tax administration	490,139	-	-	-	490,139
Capital outlay	2,656,420	20,670,386	-	68,834,795	92,161,601
Debt service:					
Principal retirement	4,535,000	-	12,535,000	-	17,070,000
Bond issuance fees	715,110	-	598,366	269,503	1,582,979
Interest and fiscal charges	19,401,916	-	1,446,436	-	20,848,352
Total expenditures	<u>86,409,985</u>	<u>20,735,644</u>	<u>14,579,802</u>	<u>77,148,999</u>	<u>198,874,430</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(23,201,517)</u>	<u>(5,668,457)</u>	<u>(2,237,414)</u>	<u>(63,654,797)</u>	<u>(94,762,185)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in (out) from/to Harris County	19,665,000	-	-	(3,256,812)	16,408,188
Transfers in	3,149,039	5,668,457	2,300,000	94,399,650	105,517,146
Transfers out	(2,300,000)	-	(94,399,650)	(8,817,496)	(105,517,146)
Bonds issued	-	-	89,600,000	-	89,600,000
Refunding bonds issued	94,185,000	-	-	-	94,185,000
Premium on bonds issued	6,185,667	-	5,398,016	-	11,583,683
Commercial paper issued	-	-	-	45,520,000	45,520,000
Payment to defease commercial paper	(99,649,799)	-	-	-	(99,649,799)
Sale of capital assets	164,664	-	-	81,182	245,846
Total other financing sources (uses)	<u>21,399,571</u>	<u>5,668,457</u>	<u>2,898,366</u>	<u>127,926,524</u>	<u>157,892,918</u>
Net changes in fund balances	(1,801,946)	-	660,952	64,271,727	63,130,733
Fund balances, beginning	<u>77,295,109</u>	<u>-</u>	<u>15,240,258</u>	<u>117,642,477</u>	<u>210,177,844</u>
Fund balances, ending	<u>\$ 75,493,163</u>	<u>\$ -</u>	<u>\$ 15,901,210</u>	<u>\$ 181,914,204</u>	<u>\$ 273,308,577</u>

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF 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, 2007**

Net change in fund balances - total governmental funds \$ 63,130,733

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 capital outlay exceeded depreciation in the current period. 77,793,568

Capital asset donations 14,384,515

Commercial paper 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:

Bonds	\$ (89,600,000)	
Refunding bonds	(94,185,000)	
Premium on bonds	(11,583,683)	
Commercial paper	(45,520,000)	

Repayments:

To paying agent for bond principal	17,070,000	
To paying agent for commercial paper refunding	99,649,799	
Payment on commercial paper	<u>350,201</u>	
Net adjustment		(123,818,683)

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 8 balances.

Compensated absences	(6,701)	
Judgments payable	(30,000)	
Amortization of debt premium	2,767,157	
Accretion of discount	(2,405,410)	
Amortization of advanced refunding difference	(66,624)	
Accrued interest on bonds	(418,753)	
Amortization of deferred charges	(180,315)	
Capitalization of deferred charges	<u>1,582,979</u>	
Combined adjustment		1,242,333

Because some revenues will not be collected for several months after the District'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. 7,965,104

The net effect of sales involving capital assets is to decrease net assets. (466,171)

Change in net assets of governmental activities \$ 40,231,399

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
February 28, 2007**

	Corps. of Engineers Escrow
ASSETS	
Cash and cash equivalents	\$ 1,537,640
Total assets	\$ 1,537,640
 LIABILITIES	
Held for others	\$ 1,537,640
Total liabilities	\$ 1,537,640

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
For The Year Ended February 28, 2007**

	<u>Balance March 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance February 28, 2007</u>
<u>Corp. of Engineers Escrow</u>				
ASSETS				
Cash and cash equivalents	\$ 1,537,640	\$ 5,143	\$ 5,143	\$ 1,537,640
Total Assets	<u>\$ 1,537,640</u>	<u>\$ 5,143</u>	<u>\$ 5,143</u>	<u>\$ 1,537,640</u>
LIABILITIES				
Held for others	\$ 1,537,640	\$ 5,143	\$ 5,143	\$ 1,537,640
Total Liabilities	<u>\$ 1,537,640</u>	<u>\$ 5,143</u>	<u>\$ 5,143</u>	<u>\$ 1,537,640</u>

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2007**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

These financial statements include all of the operations and activities of the District legal entity, which is a component unit of the reporting entity of Harris County, Texas (the "County"). Financial statements of the District are included as a blended component unit in the County financial statements.

The District was created April 23, 1937 by the Texas Legislature. Commissioners Court, as the elected governing body of the County, is also the statutory governing body of the District. All activities for which the District is financially accountable have been incorporated to form the reporting entity. This report includes the financial statements of the funds required to account for activities, organizations and functions of the District. The criteria for including activities in the District's financial statements are in conformity with GASB Statement No. 14, *The Reporting Entity*.

B. IMPLEMENTATION OF NEW STANDARDS

In the current year, the District implemented the following new standards:

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*. Implementation of GASB 43 is reflected in the note disclosure.

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. The District does not issue a full CAFR and therefore this statement is not applicable to the District's financial statements.

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 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. Implementation of GASB 46 is reflected in the statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2007**

GASB Statement No. 47, *Accounting for Termination Benefits* ("GASB 47"), establishes accounting standards for termination benefits (voluntary and involuntary). Implementation of GASB 47 does not have an effect on the District.

C. FINANCIAL STATEMENT PRESENTATION, MEASUREMENT FOCUS AND BASIS OF PRESENTATION

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 District. For the most part, the effect of interfund activity has been removed from these statements. The District reports only governmental activities, which normally are supported by taxes and intergovernmental revenues.

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 which they are levied. 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 District'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 are generated from flood control activities. Taxes and other items not included among program revenues are reported instead as general revenues.

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 District 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. Encumbrances are used during the year and any unliquidated items are reported at year-end as a reservation of fund balance. Grant and entitlement revenues are also susceptible to accrual. 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.

Fiduciary funds, including agency funds, are accounted for using the accrual basis of accounting. 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.

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The accounts of the District are organized 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. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Funds are generally classified into three categories: Governmental, Proprietary, and Fiduciary. The District has four governmental funds and one fiduciary fund and reports all funds as major funds. The District's funds are comprised of:

GOVERNMENTAL FUNDS

Operations and Maintenance (General) Fund - used to account for all revenues and expenditures, not accounted for in other funds, relating to general operations.

Special Revenue Grants - used to account for grant programs applicable to the District.

Debt Service Fund - used to account for payment of principal and interest on the District's property tax bonds.

Capital Projects Fund - used to account for capital improvements and acquisitions which are financed from the District's general obligation bonds and other revenue sources.

FIDUCIARY FUND - used to report assets held in an agency capacity for others and therefore cannot be used to support the government's own programs. The District reports one agency fund.

D. BUDGETS

The County adheres to the following timetable for consideration and adoption of the annual budget for the Flood Control Operations and Maintenance (General) Fund and the Debt Service Fund:

- 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 must prepare an estimate of available resources for the upcoming fiscal year.
- The County Budget Officer prepares the proposed annual operating budget to be presented to Commissioners Court for their consideration. The budget represents the financial plan for the new fiscal year.
- Public hearings are held on the proposed budget.
- Commissioners Court must adopt an annual operating budget by a majority vote of 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 and Debt Service Fund. Budgets for Capital Projects are established on a project basis.

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- The fund is the legal level of budgetary control. Commissioners Court approval is necessary to transfer appropriations between departments. Transfers may not increase the total budget.
- Commissioners Court may approve expenditures as an amendment to the budget in an emergency situation that could not have been foreseen at the time of the original budget was approved.
- 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.
- Appropriations lapse at year-end.
- Budgets are prepared on a cash basis (budget basis) which differs from a GAAP basis.

E. DEPOSITS AND INVESTMENTS

Cash and cash equivalents include amounts in demand deposits as well as short-term investments (i.e. with original maturity of 90 days or less). All investments are recorded at fair value, as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, based upon quoted market prices, with the difference between the purchase price and market price being recorded as earnings on investments.

F. INTERFUND TRANSACTIONS

During the course of normal operations, the District has many transactions between funds. The accompanying financial statements reflect as transfers the resources provided and expenditures used to provide services, construct assets and meet debt service requirements.

G. CAPITAL ASSETS

Capital assets include land, buildings, improvements other than buildings, equipment, construction in progress, and flood control infrastructure that are used in the District'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 District include flood control channels, storm sewers, and related right of way.

Capital assets of the District 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 and easements, regardless of the historical cost. The threshold for capitalizing buildings and building 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 governmental capital assets. 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>
Buildings	45
Equipment	3-20
Flood Control Infrastructure:	
Flood control channels	25-75
Storm sewers	30-75

H. NET ASSETS AND FUND BALANCES

NET ASSETS CLASSIFICATIONS

Net assets in 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. Net assets are shown as restricted if constraints placed on use are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. The District's restricted net assets are restricted for debt service and capital projects.

RESERVATIONS AND DESIGNATIONS

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. Designations of fund balance represent tentative management plans that are subject to change.

I. COMPENSATED ABSENCES

Accumulated compensatory time, vacation and sick leave expected to be liquidated with expendable available financial resources is reported as an expenditure in the respective Governmental Fund. Accumulated compensated absences not expected to be liquidated with expendable available resources are reported as long-term liabilities in the government-wide financial statements.

Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized 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 accrue from three to ten hours of vacation per pay period depending on years of service and pay period type, standard versus extra. Employees may accumulate from 120 to 280 hours of vacation benefits, depending on years of service. Upon termination, employees are paid the balance of unused vacation benefits.

Non-exempt employees earn compensatory time at one and one-half times their full 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 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.

J. 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

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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.

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 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 District 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, 2007, the carrying amount of the District's demand and time deposits was \$13,253,526 and the balance per various financial institutions was \$1,686,255. The District'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 District or its agent in the District'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 the District 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 District follows the guidelines established by the Harris County Investment policy. 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 obligation 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 loan

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- 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

The District's cash and investments are stated at fair value. The following is a summary of cash and investments held by the District at February 28, 2007.

	Governmental Activities	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 72,740,944	\$ 1,537,640	\$ 74,278,584
Restricted Cash and Cash Equivalents	1,280,359	-	1,280,359
Investments	208,715,370	-	208,715,370
Restricted Investments	1,149,410	-	1,149,410
Total Cash & Investments	\$ 283,886,083	\$ 1,537,640	\$ 285,423,723

The table below indicates the fair value and maturity value of the District's investments as of February 28, 2007, summarized by security type. Also demonstrated are the percentage of total portfolio and the weighted average maturity in years for each summarized security type.

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<u>Security</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>	<u>Maturity Amount</u>	<u>Weighted Avg Modified Duration (Years)</u>	<u>Credit Rating S&P/ Moody's</u>
<i>US Agency Notes</i>					
FFCB	\$ 4,928,362	1.81%	\$ 5,000,000	0.005	AAA/Aaa
FHLB	80,864,382	29.71%	80,955,000	0.588	AAA/Aaa
FHLMC	26,239,873	9.64%	26,685,000	0.030	AAA/Aaa
FNMA	83,850,207	30.81%	84,610,000	0.393	AAA/Aaa
<i>Commercial Paper</i>					
AIG	8,093,003	2.97%	8,190,000	0.007	A-1+/P-1
AGFC	8,711,273	3.20%	8,750,000	0.003	A-1/P-1
AMEX	7,978,285	2.93%	8,000,000	0.002	A-1/P-1
GECC	7,630,323	2.80%	7,755,000	0.008	A-1+/P-1
TMCC	15,546,629	5.71%	15,600,000	0.004	A-1+/P-1
<i>Local Governments</i>					
Dover, Delaware Ele	993,626	0.37%	1,000,000	0.001	AAA/Aaa
Oregon St Loc	677,236	0.25%	680,000	0.001	AAA/Aaa
Santa Monica	1,535,365	0.57%	1,530,000	0.007	AAA/Aaa
State of Texas	2,841,099	1.04%	2,860,000	0.003	AA2/AA
<i>Money Market Funds</i>					
AIM STIT Treasury Portfolio	20,842,893	7.66%	20,842,893	N/A	AAAm/Aaa
Fidelity Insttional - Tax Exempt	1,437,641	0.53%	1,437,641	N/A	AAAm/Aaa
Total Investments	272,170,197	100.00%	\$ 273,895,534	1.052	
<i>Demand and Time Deposits</i>	13,253,526				
Total Cash & Investments	\$ 285,423,723				

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 District 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.

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, 2007, the District was in compliance with all of these guidelines to manage interest rate risk.

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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 District 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.

Custodial Credit Risk: Investments are exposed to custodial credit risk if the investments are uninsured, are not registered in the District's name and are held by the counterparty. In the event of the failure of the counterparty, the District may not be able to recover the value of its investments that are held by the counterparty. As of February 28, 2007, all of the District's investments are held in the District'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 District 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 District's financial statements. The two investment strategies employed by the District 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 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	720	\$ 115,305,000	246
Debt Service Funds	Matching	270	6,655,000	177
Capital Project Funds	Matching	1,080	129,655,000	309
Money Market Mutual Funds	N/A	N/A	22,280,534	N/A
			<u>\$ 273,895,534</u>	

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3. PROPERTY TAXES

Property taxes for the District are levied each year based on tax rates adopted within 60 days of receiving the certified roll or September 30, whichever is later. Tax rates for the District are usually adopted in October or November. The levy is on the assessed value of all taxable real and personal property as of the preceding January 1. On January 1, at the time of assessment, an enforceable lien is attached to the property for property taxes. Appraised values are determined by the Harris County Appraisal District (the "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 District is permitted by law to levy a tax rate up to \$.30 per \$100 of taxable valuation. There is no limitation on the tax rate which may be set for debt service within the \$.30/\$100 valuation. The tax rate for maintenance is limited to the rate as may from time to time be approved by the voters of the District. The maximum tax rate for maintenance is \$.15 per \$100 of taxable valuation. The County is responsible for setting the tax rate for the District. The County adopted the following tax rates on behalf of the District for the 2006 tax year, per \$100 of taxable valuation:

	Operations and Maintenance <u>(General)</u>	Debt <u>Service</u>	<u>Total</u>
Flood Control District	\$0.02733	\$0.00508	\$0.03241

Property tax receivables of \$3,281,839 as of February 28, 2007 are reported net of an allowance for uncollectible taxes of \$17,243,492 and includes penalties and interest of \$7,802,344.

4. INTERFUND TRANSFERS

The following is a summary of the District's transfers for the year ended February 28, 2007:

	Transfers In:				
	General Fund	Grants Fund	Debt Service Fund	Capital Project Fund	Total
Transfers Out:					
General Fund	\$ -	\$ -	\$ 2,300,000	\$ -	\$ 2,300,000
Debt Service Fund	-	-	-	94,399,650	94,399,650
Capital Projects Fund	3,149,039	5,668,457	-	-	8,817,496
TOTAL	\$ 3,149,039	\$ 5,668,457	\$ 2,300,000	\$ 94,399,650	\$ 105,517,146

The transfers are routine in nature. Transfers between individual governmental funds are eliminated in the government-wide financial statements.

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5. CAPITAL ASSETS

Capital assets transactions are summarized as follows:

	Balance				Balance
	March 1, 2006	Additions	Disposals	Transfers	February 28, 2007
Governmental Activities:					
Land	\$ 1,369,292,587	\$ 41,994,521	\$ (446,815)	\$ 5,132,383	\$ 1,415,972,676
Construction in progress	158,053,574	63,208,588	-	(63,504,243)	157,757,919
Total capital assets not depreciated	<u>1,527,346,161</u>	<u>105,203,109</u>	<u>(446,815)</u>	<u>(58,371,860)</u>	<u>1,573,730,595</u>
Buildings	3,330,706	378,026	-	9,097,026	12,805,758
Equipment	7,635,387	1,232,025	(476,043)	-	8,391,369
Flood control projects	433,628,493	-	-	49,274,834	482,903,327
	<u>444,594,586</u>	<u>1,610,051</u>	<u>(476,043)</u>	<u>58,371,860</u>	<u>504,100,454</u>
Less accumulated depreciation for:					
Buildings	(1,326,459)	(74,484)	-	-	(1,400,943)
Equipment	(4,335,786)	(1,082,470)	456,687	-	(4,961,569)
Flood control projects	(170,090,687)	(13,478,123)	-	-	(183,568,810)
	<u>(175,752,932)</u>	<u>(14,635,077)</u>	<u>456,687</u>	<u>-</u>	<u>(189,931,322)</u>
Total capital assets being depreciated, net	<u>268,841,654</u>	<u>(13,025,026)</u>	<u>(19,356)</u>	<u>58,371,860</u>	<u>314,169,132</u>
Governmental activities capital assets, net	<u>\$ 1,796,187,815</u>	<u>\$ 92,178,083</u>	<u>\$ (466,171)</u>	<u>\$ -</u>	<u>\$ 1,887,899,727</u>

Depreciation expense was charged to the Flood Control function of the District for \$14,635,077.

6. LONG-TERM DEBT

Bonded debt of the District consists of various issues of General Obligation Bonds, which are direct obligations of the District with the District's full faith and credit pledged towards the payment of these obligations. Debt service on these bonds is paid from the receipts of a separate limited ad valorem tax.

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The changes in the District's Governmental Long-Term Debt for fiscal year 2006-2007 were as follows:

	Outstanding March 1, 2006	Increase	Decrease	Outstanding February 28, 2007	Amount Due Within One Year
Governmental Activities:					
Total Bonds Payable - Principal	\$ 366,254,985	\$ 183,785,000	\$ (17,070,000)	\$ 532,969,985	\$ 8,755,287
Unamortized Premium, Series 1993	3,012,953	-	(987,667)	2,025,286	-
Unamortized Premium, Series 2002	508,950	-	(72,041)	436,909	-
Unamortized Premium, Series 2003A	209,764	-	(194,450)	15,314	-
Unamortized Premium, Series 2003B	8,812,961	-	(431,915)	8,381,046	-
Unamortized Premium, Series 2004A	9,680,778	-	(1,018,942)	8,661,836	-
Unamortized Premium, Series 2006A	-	6,185,667	(37,394)	6,148,273	-
Unamortized Premium, Series 2007	-	5,398,016	(24,748)	5,373,268	-
Accretion of Discount - Capital					
Appreciation Bonds: Series 1993	15,910,003	2,405,410	-	18,315,413	7,747,765
Bond Refunding Loss, Series 2002	(103,400)	-	33,247	(70,153)	-
Bond Refunding Loss, Series 2003A	(319,867)	-	33,377	(286,490)	-
Total Bonds Payable	403,967,127	197,774,093	(19,770,533)	581,970,687	16,503,052
Commercial Paper Payable	78,425,000	45,520,000	(100,000,000)	23,945,000	2,176,818
Compensatory Time Payable	340,196	272,054	(265,353)	346,897	218,545
Judgments Payable	-	30,000	-	30,000	-
TOTAL	\$ 482,732,323	\$ 243,596,147	\$ (120,035,886)	\$ 606,292,584	\$ 18,898,415

Historically, the Debt Service fund has been used to liquidate bonded debt and the General Fund has been used to liquidate other long-term liabilities.

A. OUTSTANDING BONDED DEBT

	Interest Rates (%)	Date Series		Balance February 28, 2007
		Issued	Matures	
Refunding Series 1993 - CAB	5.45-5.65	1993	2011	\$ 6,474,985
Refunding Series 2002	3.00-5.50	2002	2014	8,995,000
Refunding Series 2003-A	3.00-6.00	2003	2015	10,855,000
Refunding Series 2003-B	5.00-5.25	2003	2023	191,765,000
Refunding Series 2004-A	3.00-5.25	2004	2024	131,095,000
Refunding Series 2006-A	5.00	2006	2031	94,185,000
Improvement Series 2007	4.75-5.00	2007	2031	89,600,000
TOTAL				\$ 532,969,985

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B. DEBT SERVICE REQUIREMENTS

The debt service requirements to maturity for the bonds are summarized as follows:

<u>Fiscal year</u>	<u>Principal At 2/28/2007</u>	<u>Capital Appreciation Bonds</u>	<u>Principal Value At Maturity</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 8,755,287	\$ 7,747,765	\$ 16,503,052	\$ 32,530,835	\$ 49,033,887
2009	7,908,864	4,772,872	12,681,736	32,030,630	44,712,366
2010	8,667,889	3,320,211	11,988,100	30,555,505	42,543,605
2011	8,318,921	1,830,612	10,149,533	28,502,961	38,652,494
2012	8,124,024	643,953	8,767,977	26,387,483	35,155,460
2013-2017	42,950,000	-	42,950,000	119,711,371	162,661,371
2018-2022	156,355,000	-	156,355,000	101,974,714	258,329,714
2023-2027	160,615,000	-	160,615,000	53,287,093	213,902,093
2028-2032	131,275,000	-	131,275,000	19,499,250	150,774,250
	<u>\$ 532,969,985</u>	<u>\$ 18,315,413</u>	<u>\$ 551,285,398</u>	<u>\$ 444,479,842</u>	<u>\$ 995,765,240</u>

C. UNISSUED AUTHORIZED BONDS

As of February 28, 2007, the District has issued all voter authorized property tax bonds.

D. REFUNDING/ISSUANCE OF DEBT

On December 13, 2006, the 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.

E. COMMERCIAL PAPER

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.

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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 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. The tax year 2006 tax rate adopted by Commissioners Court for fiscal year 2007 to satisfy the annual amount due under the Flood contract related to the 2% limitation was .00251. Based on the County's outstanding indebtedness as of February 28, 2007 (exclusive of Flood Control District debt), this amount required under the 2% limitation is estimated to be \$478,900.

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 be 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, 2008 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 ranging from 0.08% to 0.73%, depending on the County's long term parity debt rating. 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.

Assuming that as of February 28, 2007, loans existed for the full \$23,945,000 principal outstanding on Series F Notes, the following table is representative of the debt service requirements based on the average interest rate for the quarter ending February 28, 2007 over the next four years:

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Fiscal Year	Principal	Interest	Total
2008	\$ 2,176,818	\$ 1,820,818	\$ 3,997,636
2009	8,707,271	2,813,992	11,521,263
2010	8,707,271	1,489,761	10,197,032
2011	4,353,640	248,294	4,601,934
TOTAL	<u>\$ 23,945,000</u>	<u>\$ 6,372,865</u>	<u>\$ 30,317,865</u>

F. 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. There were no arbitrage rebate payments made during fiscal year 2007. As of February 28, 2007 there were no estimated liabilities for arbitrage rebate on governmental debt. The Debt Service Funds have typically been used to liquidate arbitrage liabilities in previous years.

7. RETIREMENT PLAN

Plan Description

The District, a component unit of Harris County, provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional 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 575 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 TCRDS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCDRS since 1991, the District 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 District 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 District are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 2007 is 10.43%. The contribution rates for calendar years 2006 and 2005 were 9.81% and 10.05% respectively.

The plan provisions are adopted by the Commissioners Court of the County, 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 or 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 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 District.

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,

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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 District 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 District based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually. The District contributed using actuarially determined rate of 9.81% for the months of the calendar year in 2006, and 10.43% for the months of the calendar year in 2007.

The contribution rate payable by the employee members for 2006 and 2007 is the rate of 7% as adopted by Commissioner's Court. The employee contribution rate and the employer contribution rate may be changed by Commissioner's Court, within the options available in the TCDRS Act.

Annual Pension Cost

For the County's accounting year ending February 28, 2007, the annual pension cost for the TCDRS plan for its employees, including the District, was \$65,922,424 and the actual contributions for the District were \$1,619,012.

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, 2005 and December 31, 2006, which were the basis for determining the contribution rates for calendar years 2006 and 2007. The December 31, 2006 actuarial valuation is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/04	12/31/05	12/31/06
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, closed
Amortization period in years	20	20	15
Asset Valuation Method	Long-term appreciation with adjustments	Long-term appreciation with adjustments	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumption			
Investment return (1)	8.0 %	8.0 %	8.0 %
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%
(1) Includes inflation at the stated rate.			

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Harris County Trend Information			
Accounting Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2/28/07	\$ 65,922,424	100%	-
2/28/06	\$ 60,990,625	100%	-
2/28/05	\$ 60,824,272	100%	-

Schedule of Funding			
Actuarial Valuation Date	12/31/04	12/31/05 (2)	12/31/06
Actuarial Value of Assets	\$1,789,864,440	\$1,950,248,224	\$2,184,433,915
Actuarial Accrued Liability (AAL)	\$2,005,039,645	\$2,161,164,457	\$2,322,483,635
Unfunded Actuarial Accrued Liability (UAAL)	\$ 215,175,205	\$ 210,916,233	\$ 138,049,720
Funded Ratio	89.27%	90.24%	94.06%
Annual Covered Payroll (Actuarial)	\$ 623,386,613	\$ 631,353,087	\$ 682,345,135
UAAL as Percentage of Covered Payroll	34.52%	33.41%	20.23%
<small>(2) Funding information differs from prior year compliance data due to plan changes effective 1/1/2007</small>			

8. OTHER POST EMPLOYMENT BENEFITS

Plan Description

Harris County administers an agent multiple-employer defined benefit post employment healthcare plan that covers retired employees of participating governmental entities. The plan provides medical, dental, vision, and basic life insurance benefits to plan members. Local Government Code Section 157.101 assigns the authority to establish and amend benefit provisions to Commissioner's Court.

Membership in the plan at March 1, 2006, the date of the latest actuarial valuation, consists of the following:

Retirees and beneficiaries receiving benefits	2,893
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	13,842
Number of participating employers	5

Summary of Significant Accounting Policies

Basis of Accounting. The Plan's financial statements are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable.

Method Used to Value Investments. Investments are reported 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.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
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Contributions

Local Government Code Section 157.102 assigns to Commissioner's Court the authority to establish and amend contribution requirements of the plan members and the participating employers. The following tables present the criteria for the employers' contribution to the retiree's and qualifying dependent's benefits:

Retired Prior to March 1, 2002:

Years of Service	10 yrs.	9 yrs.	8 yrs.	<8yrs. with proportionate service and/or disability
Retiree - Employer Share	100%	90%	80%	50%
Retiree - Retiree Share	0%	10%	20%	50%
Dependent - Employer Share	50%	45%	40%	25%
Dependent - Retiree Share	50%	55%	60%	75%

Retired or Eligible to Retire Prior to March 1, 2011:

Employee's age plus years of service	75	75	70-74	<70	N/A
Years of service	10	8-9	8	4-7	<4
Consecutive service years at retirement	4	4	4	4	N/A
Retiree - Employer Share	100%	80%	80%	50%	0%
Retiree - Retiree Share	0%	20%	20%	50%	100%
Dependent - Employer Share	50%	40%	40%	25%	0%
Dependent - Retiree Share	50%	60%	60%	75%	100%

Eligible to Retire March 1, 2011 or After:

Combination of age plus a minimum of 10 years of service equal to 80 or at least age 65 with a minimum of 10 years of service to receive 100% County contributions for retiree coverage and 50% for dependent coverage. Retirees under age 65 and whose age plus years of service is less than 80 will be required to pay an additional contribution as determined by Commissioners Court.

Employees Hired on or After March 1, 2007:

A combination of age plus a minimum of 20 years of service equal to 80 or at least age 65 with a minimum of 15 years of service to receive any County contributions for retiree or dependent coverage.

The Plan rates are set annually by Commissioner's Court based on the combination of premiums and prior year costs of the self-funded portion of the plan. The Plan is funded on a pay-as-you-go basis. For the year ended February 28, 2007, plan members or beneficiaries receiving benefits contributed \$3.3 million, or approximately 16 percent of total premiums. Participating employers contributed \$16.9 million. The total contributions for the year ended February 28, 2007 was \$20.2 million. Administrative costs are provided for through the annual rate calculation.

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9. COMMITMENTS AND CONTINGENT LIABILITIES

LITIGATION

The District is involved in lawsuits and other claims in the ordinary course of operations. Although the outcome of such lawsuits and other claims is not presently determinable, the resolution of these matters is not expected to have a material effect on the financial condition of the District.

CONSTRUCTION COMMITMENTS

The District has commitments under various contracts in connection with the construction of flood control facilities, buildings, and projects of \$45,283,902.

10. RISK MANAGEMENT

The District's risk-of-loss exposures include exposure to liability and accidental loss of real and personal property as well as human resources. District operations involve a variety of high-risk activities including, but not limited to, construction and maintenance activities. The County's Office of Human Resources & Risk Management is responsible for identifying, evaluating, and managing the District's risk in order to reduce the exposure from liability and accidental loss of property and human resources. The District is treated as a County department by the County's Risk Management Office and is assessed premiums and charges similar to other County departments.

The District is covered by the Harris County workers' compensation program. The County is self-insured for workers' compensation medical, indemnity, and other related payments. Claims adjusting services are provided by a third-party administrative claims adjusting service. Interfund premiums on workers' compensation are determined by position class code, at actuarially determined rates.

The County has reinsurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the fiscal year ended February 28, 2007 is \$850,000 per occurrence. During the last three fiscal years, no claims incurred exceeded the insurance coverage for the County. Through the County, the District provides medical, dental, vision, and basic life and disability insurance to eligible employees and retirees. The District pays the full cost of health benefits for eligible employees and 50% of the cost of dependent premiums. Disability insurance will pay up to 50% of an employee's salary for two years with an employee option to extend the benefits period to age 65 and increase the percentage to 60%.

The District's group insurance premiums, as well as employee payroll deductions for premiums for dependents and optional coverages, are paid into the County's Health Insurance Trust Fund, which in turn makes disbursements to contracted insurance providers based upon monthly enrollment and premium calculations.

Billings to the District for property insurance, professional liability insurance, and crime and fidelity policies are handled through the County's Risk Management Fund, as are payments to the insurance carriers. Claim payments made up to the deductible limit are expensed by the District when paid by the Risk Management Fund. Payments for the District's general, vehicle, and property damage liability claims, for which the County is self-insured, are made through the Risk Management Fund and billed to the District.

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11. RECENT ACCOUNTING PRONOUNCEMENTS

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 District will implement GASB 45 in fiscal year 2008.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (“GASB 48”), establishes criteria that governments will use to record and report sales of future revenues and specific receivables. The District will implement this statement in fiscal year 2008.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (“GASB 49”), establishes accounting standards for pollution remediation obligations regarding existing pollution areas. GASB 49 will be implemented by the District in fiscal year 2009.

GASB Statement No. 50, *Pension Disclosures- an amendment of GASB Statements No. 25 and No. 27* (“GASB 50”), more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to the financial statements. GASB 50 will be implemented by the District in fiscal year 2009.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (“GASB 51”), establishes accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. GASB 51 will be implemented by the District in fiscal year 2011.

REQUIRED SUPPLEMENTARY INFORMATION

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS
OPERATIONS AND MAINTENANCE (GENERAL) FUND
For The Year Ended February 28, 2007**

	OPERATIONS AND MAINTENANCE (GENERAL) FUND			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES AND OTHER FINANCING SOURCES				
Beginning Cash and Investments:				
Flood Control General	\$ 76,260,911	\$ 76,260,911	\$ 76,342,512	\$ 81,601
FC Ser F Comm Paper	310,685	310,685	310,209	(476)
FC Refunding Series 2003 B Debt Service Fund	4,168	4,168	4,182	14
FC Refunding Series 2004 A Debt Service Fund	1,542,336	1,542,336	1,542,442	106
Total Beginning Cash and Investments	<u>78,118,100</u>	<u>78,118,100</u>	<u>78,199,345</u>	<u>81,245</u>
Intergovernmental:				
Flood Control General	-	-	86,611	86,611
Interest:				
Flood Control General	2,837,625	2,837,625	2,400,008	(437,617)
FC Ser F Comm Paper	15,015	15,015	5,558	(9,457)
FC Refunding Series 2003 B Debt Service Fund	157	157	4,115	3,958
FC Refunding Series 2004 A Debt Service Fund	42,651	42,651	37,417	(5,234)
FC Contract Tax Series 2006 A Debt Service Fund	-	-	10	10
FC Contract Ref Series 2006 A Cost of Issuance	-	-	823	823
Total Interest	<u>2,895,448</u>	<u>2,895,448</u>	<u>2,447,931</u>	<u>(447,517)</u>
Taxes:				
Flood Control General	<u>57,281,828</u>	<u>57,281,828</u>	<u>59,766,894</u>	<u>2,485,066</u>
Miscellaneous:				
Flood Control General	<u>149,800</u>	<u>149,800</u>	<u>384,402</u>	<u>234,602</u>
Other - Sale of Real Property:				
Flood Control General	-	-	164,664	164,664
Other - Bond Proceeds:				
FC Contract Tax Series 2006 A Debt Service Fund	-	94,185,000	94,185,000	-
Other - Bond Premiums:				
FC Contract Tax Series 2006 A Debt Service Fund	-	6,185,667	6,185,667	-
Other Transfers In:				
FC Ser F Comm Paper	-	103,688,011	102,678,011	(1,010,000)
FC Refunding Series 2003 B Debt Service Fund	-	9,784,600	9,785,000	400
FC Refunding Series 2004 A Debt Service Fund	-	11,361,488	11,909,039	547,551
FC Contract Tax Series 2006 A Debt Service Fund	-	278,212	283,939	5,727
FC Contract Ref Series 2006 A Cost of Issuance	-	173,696	173,696	-
Total Other Transfers In	<u>-</u>	<u>125,286,007</u>	<u>124,829,685</u>	<u>(456,322)</u>
Total Revenue and Other Financing Sources	<u>138,445,176</u>	<u>364,101,850</u>	<u>366,250,199</u>	<u>2,148,349</u>
EXPENDITURES AND OTHER FINANCING USES				
Flood Control General	136,530,164	136,530,164	64,653,854	71,876,310
FC Ser F Comm Paper	325,700	104,013,711	102,718,840	1,294,871
FC Refunding Series 2003B	4,325	9,788,925	9,784,600	4,325
FC Contract Tax 2004A	1,584,987	12,946,475	11,361,487	1,584,988
FC Contract Tax Series 2006 A Debt Service Fund	-	100,648,879	100,648,025	854
FC Contract Ref Series 2006 A Cost of Issuance	-	173,696	174,519	(823)
Total Expenditures and Other Financing Uses	<u>138,445,176</u>	<u>364,101,850</u>	<u>289,341,325</u>	<u>74,760,525</u>
Net changes in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,908,874</u>	<u>\$ 76,908,874</u>

See notes to required supplementary information.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
February 28, 2007**

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:

	General Fund
REVENUES AND OTHER FINANCING SOURCES	
Cash (budgetary) basis	\$ 366,250,199
Accrued in 2006, received in 2007	284,094,805
Accrued in 2007, to be received in 2008	<u>(463,787,166)</u>
Revenues on modified accrual (GAAP) basis	<u>186,557,838</u>
EXPENDITURES AND OTHER FINANCING USES	
Cash (budgetary) basis	289,341,325
Incurred during 2006, paid in 2007	52,350,681
Incurred during 2007, payable in 2008	<u>(153,332,222)</u>
Expenditures on modified accrual (GAAP) basis	<u>188,359,784</u>
Net changes in Fund Balance	<u><u>\$ (1,801,946)</u></u>

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

SUPPLEMENTAL SCHEDULES

&

OTHER INFORMATION

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF SERVICES AND RATES
For Fiscal Year Ended February 28, 2007
Schedule 1
(Unaudited)**

1. Services Provided by the District:

- | | | |
|--|---|-------------------------------------|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input checked="" type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
- Participates in joint venture, regional system and/or wastewater service (other than emergency Interconnect)
- Other (specify): _____

2. Retail Service Providers: None

3. Total Water Consumption (In Thousands) During The Fiscal Year:

Gallons pumped into system: N/A

Gallons billed to customers: N/A

4. Standby Fees: Does the District assess standby fees? Yes No .

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF SERVICES AND RATES
For Fiscal Year Ended February 28, 2007
Schedule 1
(Unaudited)**

5. Location of District:

County in which district is located: Harris County

Is the District located entirely within one county? Yes No .

Is the District located within a city? Entirely Partly Not at all .

Cities in which district is located: Houston & all other cities in Harris County

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

<u>City</u>	<u>Entirely</u>	<u>Partly</u>	<u>Not at all</u>
Baytown		X	
Bellaire		X	
Bunker Hill Village		X	
Deer Park		X	
El Lago		X	
Friendswood		X	
Galena Park		X	
Hedwig Village		X	
Houston		X	
Humble		X	
Jacinto City		X	
Jersey Village		X	
Katy		X	
LaPorte		X	
League City		X	
Mission Bend		X	
Missouri City		X	
Morgan's Point		X	
Nassau Bay		X	
Pasadena		X	
Pearland		X	
Seabrook		X	
Shore Acres		X	
South Houston		X	
Southside Place		X	
Spring Valley		X	
Stafford		X	
Taylor Lake Village		X	
Tomball		X	
Waller		X	
Webster		X	
West University Place		X	

Is the general membership of the Board appointed by an office outside the district?
Yes No

By whom?: Board, governed by Harris County Commissioner's Court.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF GENERAL FUND EXPENDITURES
For The Year Ended February 28, 2007
Schedule 2
(Unaudited)**

Personnel Expenditures (including benefits)	\$	22,744,858
Professional Fees and Contractual Services		31,821,754
Utilities		558,583
Repairs and Maintenance		841,185
Administrative Expenditures		2,901
Capital Outlay		2,656,420
Other Expenditures		27,784,284
Transfers Out		<u>2,300,000</u>
TOTAL EXPENDITURES & TRANSFERS OUT	\$	<u><u>88,709,985</u></u>

Number of persons employed by the District: 340 Full-Time

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF TEMPORARY INVESTMENTS
For The Year Ended February 28, 2007
Schedule 3
(Unaudited)**

No temporary investments outstanding at fiscal year end

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF TAXES LEVIED AND RECEIVABLE**

For The Year Ended February 28, 2007

Schedule 4

(Unaudited)

(amounts in thousands)

	Operations and Maintenance Taxes	Debt Service Taxes
Taxes receivable, beginning of year	\$ 9,183,935	\$ 4,479,172
2006 Original Tax Levy	59,687,336	11,094,463
Total to be accounted for	<u>68,871,271</u>	<u>15,573,635</u>
Tax collections:		
Current year	(52,855,348)	(9,824,502)
Prior years	(7,050,978)	(1,991,091)
Total collections	<u>(59,906,326)</u>	<u>(11,815,593)</u>
Taxes receivable, end of year	<u>\$ 8,964,945</u>	<u>\$ 3,758,042</u>

Taxes receivable, by years		
1997 and prior	\$ 1,206,713	\$ 1,396,061
1998	313,328	238,112
1999	372,363	233,105
2000	382,663	207,775
2001	351,578	234,776
2002	422,630	195,702
2003	497,742	199,180
2004	558,886	167,506
2005	790,377	129,497
2006	4,068,665	756,328
Taxes receivable, end of year	<u>\$ 8,964,945</u>	<u>\$ 3,758,042</u>

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Property valuations:				
Real property	\$ 250,997,888	\$ 230,050,598	\$ 199,378,304	\$ 185,632,048
Personal property	40,345,611	37,276,435	32,119,652	30,601,495
Less exemptions	(66,142,090)	(61,017,743)	(37,273,944)	(34,822,427)
Total property valuations	<u>\$ 225,201,409</u>	<u>\$ 206,309,290</u>	<u>\$ 194,224,012</u>	<u>\$ 181,411,116</u>
Tax rates per \$100 valuation:				
Operations and Maintenance tax rates (a)	\$ 0.02733	\$ 0.02733	\$ 0.02553	\$ 0.02981
Debt service tax rates	0.00508	0.00589	0.00765	0.01193
Total tax rates per \$100 valuation	<u>\$ 0.03241</u>	<u>\$ 0.03322</u>	<u>\$ 0.03318</u>	<u>\$ 0.04174</u>
Original tax levy	<u>\$ 72,988</u>	<u>\$ 68,536</u>	<u>\$ 64,444</u>	<u>\$ 75,721</u>
Percent of taxes collected to taxes levied (b)	<u>88.6%</u>	<u>90.3%</u>	<u>93.2%</u>	<u>99.0%</u>

(a) Maximum tax rate approved by voters : \$0.15 on November 8, 1977.

(b) Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS**

For The Year Ended February 28, 2007

**Schedule 5
(Unaudited)**

Due During Fiscal Years Ending	Annual Requirements for All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2008	\$ 8,755,287	\$ 32,530,835	\$ 41,286,122
2009	\$ 7,908,864	\$ 32,030,630	39,939,494
2010	\$ 8,667,889	\$ 30,555,505	39,223,394
2011	\$ 8,318,921	\$ 28,502,961	36,821,882
2012	\$ 8,124,024	\$ 26,387,483	34,511,507
2013	\$ 9,435,000	\$ 24,864,956	34,299,956
2014	\$ 9,715,000	\$ 24,393,232	34,108,232
2015	\$ 8,685,000	\$ 23,905,894	32,590,894
2016	\$ 7,945,000	\$ 23,476,526	31,421,526
2017	\$ 7,170,000	\$ 23,070,763	30,240,763
2018	\$ 7,545,000	\$ 22,694,338	30,239,338
2019	\$ 22,925,000	\$ 22,298,225	45,223,225
2020	\$ 39,325,000	\$ 21,094,663	60,419,663
2021	\$ 41,385,000	\$ 19,030,100	60,415,100
2022	\$ 45,175,000	\$ 16,857,388	62,032,388
2023	\$ 47,465,000	\$ 14,575,488	62,040,488
2024	\$ 49,845,000	\$ 12,177,875	62,022,875
2025	\$ 10,795,000	\$ 9,659,980	20,454,980
2026	\$ 26,255,000	\$ 9,093,250	35,348,250
2027	\$ 26,255,000	\$ 7,780,500	34,035,500
2028	\$ 12,800,000	\$ 6,467,750	19,267,750
2029	\$ 12,800,000	\$ 5,187,000	17,987,000
2030	\$ 12,800,000	\$ 3,906,250	16,706,250
2031	\$ 12,800,000	\$ 2,625,500	15,425,500
2032	\$ 80,075,000	\$ 1,312,750	81,387,750
	<u>\$ 532,969,985</u>	<u>\$ 444,479,842</u>	<u>\$ 977,449,827</u>

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
For The Year Ended February 28, 2007
Schedule 5
(Unaudited)**

<u>Due During Fiscal Years Ending</u>	Series 1993		
	<u>Principal Due 10/01</u>	<u>Interest Due 04/01, 10/01</u>	<u>Total</u>
2008	\$ 2,725,287	\$ 8,389,713	\$ 11,115,000
2009	1,678,864	5,906,136	7,585,000
2010	1,167,889	4,677,111	5,845,000
2011	643,921	2,926,079	3,570,000
2012	259,024	1,135,976	1,395,000
	<u>\$ 6,474,985</u>	<u>\$ 23,035,015</u>	<u>\$ 29,510,000</u>

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
For The Year Ended February 28, 2007
Schedule 5
(Unaudited)**

Due During Fiscal Years Ending	Series 2002		
	Principal Due 10/01	Interest Due 04/01, 10/01	Total
2008	\$ -	\$ 483,925	\$ 483,925
2009	-	483,925	483,925
2010	1,085,000	483,925	1,568,925
2011	1,075,000	429,675	1,504,675
2012	1,060,000	375,925	1,435,925
2013	2,365,000	317,624	2,682,624
2014	2,365,000	187,550	2,552,550
2015	1,045,000	57,475	1,102,475
	\$ 8,995,000	\$ 2,820,024	\$ 11,815,024

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
For The Year Ended February 28, 2007
Schedule 5
(Unaudited)**

<u>Due During Fiscal Years Ending</u>	Series 2003-A		
	<u>Principal Due 10/01</u>	<u>Interest Due 04/01, 10/01</u>	<u>Total</u>
2008	\$ 1,270,000	\$ 424,481	\$ 1,694,481
2009	1,270,000	360,981	1,630,981
2010	1,245,000	322,881	1,567,881
2011	1,225,000	282,419	1,507,419
2012	1,200,000	239,544	1,439,544
2013	1,185,000	191,544	1,376,544
2014	1,170,000	144,144	1,314,144
2015	1,155,000	95,881	1,250,881
2016	1,135,000	48,238	1,183,238
	<u>\$ 10,855,000</u>	<u>\$ 2,110,113</u>	<u>\$ 12,965,113</u>

(Continued)

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
For The Year Ended February 28, 2007
Schedule 5
(Unaudited)

Due During Fiscal Years Ending	Series 2003-B		
	Principal Due 10/01	Interest Due 04/01, 10/01	Total
2008	\$ -	\$ 9,784,600	\$ 9,784,600
2009	-	9,784,600	9,784,600
2010	-	9,784,600	9,784,600
2011	-	9,784,600	9,784,600
2012	-	9,784,600	9,784,600
2013	-	9,784,600	9,784,600
2014	-	9,784,600	9,784,600
2015	-	9,784,600	9,784,600
2016	-	9,784,600	9,784,600
2017	-	9,784,600	9,784,600
2018	-	9,784,600	9,784,600
2019	14,985,000	9,784,600	24,769,600
2020	30,965,000	8,997,888	39,962,888
2021	32,590,000	7,372,225	39,962,225
2022	35,915,000	5,661,250	41,576,250
2023	37,720,000	3,865,500	41,585,500
2024	39,590,000	1,979,500	41,569,500
	<u>\$ 191,765,000</u>	<u>\$ 145,291,563</u>	<u>\$ 337,056,563</u>

(Continued)

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
For The Year Ended February 28, 2007
Schedule 5
(Unaudited)

Due During Fiscal Years Ending	Series 2004-A		
	Principal Due 10/01	Interest Due 04/01, 10/01	Total
2008	\$ 4,760,000	\$ 6,599,738	\$ 11,359,738
2009	4,960,000	6,401,738	11,361,738
2010	5,170,000	6,193,738	11,363,738
2011	5,375,000	5,986,938	11,361,938
2012	5,605,000	5,758,188	11,363,188
2013	5,885,000	5,477,938	11,362,938
2014	6,180,000	5,183,688	11,363,688
2015	6,485,000	4,874,688	11,359,688
2016	6,810,000	4,550,438	11,360,438
2017	7,170,000	4,192,913	11,362,913
2018	7,545,000	3,816,488	11,361,488
2019	7,940,000	3,420,375	11,360,375
2020	8,360,000	3,003,525	11,363,525
2021	8,795,000	2,564,625	11,359,625
2022	9,260,000	2,102,888	11,362,888
2023	9,745,000	1,616,738	11,361,738
2024	10,255,000	1,105,125	11,360,125
2025	10,795,000	566,730	11,361,730
	<u>\$ 131,095,000</u>	<u>\$ 73,416,499</u>	<u>\$ 204,511,499</u>

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS**

For The Year Ended February 28, 2007

**Schedule 5
(Unaudited)**

Due During Fiscal Years Ending	Series 2006-A		
	Principal Due 10/01	Interest Due 04/01, 10/01	Total
2008	\$ -	\$ 3,767,400	\$ 3,767,400
2009	-	4,709,250	4,709,250
2010	-	4,709,250	4,709,250
2011	-	4,709,250	4,709,250
2012	-	4,709,250	4,709,250
2013	-	4,709,250	4,709,250
2014	-	4,709,250	4,709,250
2015	-	4,709,250	4,709,250
2016	-	4,709,250	4,709,250
2017	-	4,709,250	4,709,250
2018	-	4,709,250	4,709,250
2019	-	4,709,250	4,709,250
2020	-	4,709,250	4,709,250
2021	-	4,709,250	4,709,250
2022	-	4,709,250	4,709,250
2023	-	4,709,250	4,709,250
2024	-	4,709,250	4,709,250
2025	-	4,709,250	4,709,250
2026	13,455,000	4,709,250	18,164,250
2027	13,455,000	4,036,500	17,491,500
2028	-	3,363,750	3,363,750
2029	-	2,691,000	2,691,000
2030	-	2,018,250	2,018,250
2031	-	1,345,500	1,345,500
2032	67,275,000	672,750	67,947,750
	<u>\$ 94,185,000</u>	<u>\$ 102,661,650</u>	<u>\$ 196,846,650</u>

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS**

For The Year Ended February 28, 2007

**Schedule 5
(Unaudited)**

Due During Fiscal Years Ending	Series 2007		
	Principal Due 10/01	Interest Due 04/01, 10/01	Total
2008	\$ -	\$ 3,080,978	\$ 3,080,978
2009	-	4,384,000	4,384,000
2010	-	4,384,000	4,384,000
2011	-	4,384,000	4,384,000
2012	-	4,384,000	4,384,000
2013	-	4,384,000	4,384,000
2014	-	4,384,000	4,384,000
2015	-	4,384,000	4,384,000
2016	-	4,384,000	4,384,000
2017	-	4,384,000	4,384,000
2018	-	4,384,000	4,384,000
2019	-	4,384,000	4,384,000
2020	-	4,384,000	4,384,000
2021	-	4,384,000	4,384,000
2022	-	4,384,000	4,384,000
2023	-	4,384,000	4,384,000
2024	-	4,384,000	4,384,000
2025	-	4,384,000	4,384,000
2026	12,800,000	4,384,000	17,184,000
2027	12,800,000	3,744,000	16,544,000
2028	12,800,000	3,104,000	15,904,000
2029	12,800,000	2,496,000	15,296,000
2030	12,800,000	1,888,000	14,688,000
2031	12,800,000	1,280,000	14,080,000
2032	12,800,000	640,000	13,440,000
	<u>\$ 89,600,000</u>	<u>\$ 95,144,978</u>	<u>\$ 184,744,978</u>

(Concluded)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COMMERCIAL PAPER DEBT SERVICE REQUIREMENTS - BY YEARS
For The Year Ended February 28, 2007
Schedule 5a
(Unaudited)**

Commercial Paper Series F			
Due During Fiscal Years Ending	Principal	Interest	Total
2008	2,176,818	1,820,818	3,997,636
2009	8,707,271	2,813,992	11,521,263
2010	8,707,271	1,489,761	10,197,032
2011	4,353,640	248,294	4,601,934
TOTAL	\$ 23,945,000	\$ 6,372,865	\$ 30,317,865

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF CHANGES IN LONG-TERM DEBT
For The Year Ended February 28, 2007
Schedule 6
(Unaudited)**

	Bond Issues							Total
	Series 1993	Series 2002	Series 2003-A	Series 2003-B	Series 2004-A	Series 2006-A	Series 2007-A	
Interest Rate	5.45 - 5.65	3.00 - 5.50	3.00 - 6.00	5.00 - 5.25	3.00 - 5.25	5.00	4.75 - 5.00	
Dates Interest Payable	04/01;10/01	04/01;10/01	04/01;10/01	04/01;10/01	04/01;10/01	04/01;10/01	04/01;10/01	
Maturity Dates	10/1/2011	10/1/2014	10/1/2015	10/1/2023	10/1/2024	10/1/2031	10/1/2031	
Bonds Outstanding at March 1, 2006	\$ 6,474,985	\$ 9,985,000	\$ 22,400,000	\$ 191,765,000	\$ 135,630,000	\$ -	\$ -	\$ 366,254,985
Bonds Sold During the Current Year: 2006-2007	-	-	-	-	-	94,185,000	89,600,000	183,785,000
Retirements During the Current Year: 2006-2007	-	990,000	11,545,000	-	4,535,000	-	-	17,070,000
Bonds Outstanding at February 28, 2007	<u>\$ 6,474,985</u>	<u>\$ 8,995,000</u>	<u>\$ 10,855,000</u>	<u>\$ 191,765,000</u>	<u>\$ 131,095,000</u>	<u>\$ 94,185,000</u>	<u>\$ 89,600,000</u>	<u>\$ 532,969,985</u>
Interest Paid During the Current Year - 2006-2007	<u>\$ -</u>	<u>\$ 515,606</u>	<u>\$ 930,831</u>	<u>\$ 9,784,600</u>	<u>\$ 6,826,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,057,525</u>

Paying Agent's	Name	City
Series 1993	Chase Manhattan Bank	New York, New York
Series 2002	JPMorgan Chase Bank	Dallas, Texas
Series 2003-A	JPMorgan Chase Bank	Dallas, Texas
Series 2003-B	JPMorgan Chase Bank	Dallas, Texas
Series 2004-A	JPMorgan Chase Bank	Dallas, Texas
Series 2006-A	The Bank of New York	New York, New York
Series 2007	The Bank of New York	New York, New York

Bond Authorization:	Tax Bonds
Amount Authorized By Voters	<u>\$ 250,000,000</u>
Amount Issued	<u>250,000,000</u>
Remaining To Be Issued	<u>\$ -</u>

Debt Service Fund Cash and Investments balances as of February 28, 2007: \$ 15,159,402

Average Annual Debt Service Payment (Principal & Interest) for remaining term of all debt: \$ 39,097,993

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
COMPARATIVE SCHEDULE OF REVENUE AND EXPENDITURES-GENERAL AND DEBT SERVICE FUNDS-FIVE YEARS ENDED
For The Year Ended February 28, 2007
Schedule 7
(Unaudited)

	Amounts					Percent of Fund Total Revenues				
	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003
General Fund:										
Revenues:										
Taxes	\$ 59,995,908	\$ 54,925,527	\$ 49,401,450	\$ 54,198,331	\$ 49,590,215	95.0%	96.0%	97.4%	97.3%	96.9%
Lease Revenue	188,999	136,385	124,397	42	27	0.3%	0.3%	0.2%	0.0%	0.0%
Intergovernmental	86,611	-	-	-	190,416	0.1%	0.0%	0.0%	0.0%	0.4%
Interest	2,789,178	1,903,542	751,786	934,438	894,054	4.4%	3.3%	1.5%	1.7%	1.7%
Miscellaneous	147,772	239,234	431,503	543,532	508,866	0.2%	0.4%	0.9%	1.0%	1.0%
Total Revenues	\$ 63,208,468	\$ 57,204,688	\$ 50,709,136	\$ 55,676,343	\$ 51,183,578	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditures:										
Current Operating:										
Flood Control	\$ 58,611,400	\$ 51,687,419	\$ 46,439,981	\$ 47,419,771	\$ 13,177,778	92.7%	90.3%	91.6%	85.1%	25.8%
Tax Administration	490,139	440,799	574,083	558,583	579,853	0.8%	0.8%	1.1%	1.0%	1.1%
Capital Outlay	2,656,420	3,303,690	9,934,220	5,549,373	31,385,863	4.2%	5.8%	19.6%	10.0%	61.3%
Debt Service	24,652,026	22,537,389	8,663,129	1,768,040	-	39.0%	39.4%	17.1%	3.2%	0.0%
Total Expenditures	\$ 86,409,985	\$ 77,969,297	\$ 65,611,413	\$ 55,295,767	\$ 45,143,494	136.7%	136.3%	129.4%	99.3%	88.2%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (23,201,517)	\$ (20,764,609)	\$ (14,902,277)	\$ 380,576	\$ 6,040,084	-36.7%	-36.3%	-29.4%	0.7%	11.8%
Debt Service Fund:										
Revenues:										
Taxes	\$ 11,779,309	\$ 12,764,330	\$ 15,613,192	\$ 22,264,879	\$ 23,596,948	95.4%	96.5%	98.6%	99.1%	98.2%
Interest	556,239	425,606	212,489	211,559	442,964	4.5%	3.2%	1.3%	0.9%	1.8%
Miscellaneous	6,840	39,592	10,548	-	200	0.1%	0.3%	0.1%	0.0%	0.0%
Total Revenues	\$ 12,342,388	\$ 13,229,528	\$ 15,836,229	\$ 22,476,438	\$ 24,040,112	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditures:										
Debt Service										
Principal Retirement	\$ 12,535,000	\$ 14,740,000	\$ 18,200,000	\$ 19,975,000	\$ 15,979,644	101.6%	111.4%	114.9%	88.8%	66.5%
Interest and Fiscal Charges	2,044,802	2,183,436	3,181,054	4,265,483	18,635,680	16.6%	16.5%	20.1%	19.0%	77.5%
Total Expenditures	\$ 14,579,802	\$ 16,923,436	\$ 21,381,054	\$ 24,240,483	\$ 34,615,324	118.2%	127.9%	135.0%	107.8%	144.0%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (2,237,414)	\$ (3,693,908)	\$ (5,544,825)	\$ (1,764,045)	\$ (10,575,212)	-18.2%	-27.9%	-35.0%	-7.8%	-44.0%

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
For The Year Ended February 28, 2007
Schedule 8
(Unaudited)**

Complete District Mailing Address: HCFCF 9900 NW Fwy Houston, Tx 77092

District Business Telephone Number: (713) 684-4000

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees Feb 28, 2007	Expense Reimbursements Feb 28, 2007	Title at Year End	Resident of District
Commissioners' Court acts as Board of Director for District					
Judge Ed Emmett 1001 Preston, Suite 911 Houston Texas 77002	(Elected) 01/07 - 12/10	N/A	N/A	County Judge	Yes
El Franco Lee 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/05 - 12/08	N/A	N/A	Commissioner	Yes
Sylvia R. Garcia 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/07 - 12/10	N/A	N/A	Commissioner	Yes
Steve Radack 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/05 - 12/08	N/A	N/A	Commissioner	Yes
Jerry Eversole 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/07 - 12/10	N/A	N/A	Commissioner	Yes
Key Personnel:					
Arthur L. Storey Jr. P.E. 1001 Preston, 7th Fl Houston Texas 77002	(Appointed) 9/25/1989	N/A	N/A	Executive Director/ County Employee	Yes
Michael D. Talbott P.E. 9900 NW Fwy Houston, Tx 77092	(Appointed) 6/22/1998	N/A	N/A	Director/ Employee	Yes

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
For The Year Ended February 28, 2007
Schedule 8
(Unaudited)**

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees Feb 28, 2007	Expense Reimbursements Feb 28, 2007	Title at Year End	Resident of District
Michael Stafford 1019 Congress 15th Fl Houston Texas 77002	(Elected) 01/05 - 12/08	N/A	N/A	County Attorney	Yes
Paul Bettencourt 1001 Preston, 1th Fl Houston Texas 77002	(Elected) 01/05 - 12/08	N/A	N/A	Tax Assessor & Collector of Taxes	Yes
Edwin Harrison 1001 Preston, Rm 630 Houston, Texas 77002	(Appointed) 01/03	N/A	N/A	Investment Officer & Debt Manager County Employee	Yes
County Auditor					
Barbara J. Schott 1001 Preston, 8th Fl Houston Texas 77002	(Appointed) 03/03	N/A	N/A	County Auditor	Yes
Consultant					
Deloitte & Touche LLP 333 Clay St. Suite 2300 Houston, Texas 77002	3/21/2001	N/A	N/A	Independent Auditor	N/A

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
Schedule 9
(Unaudited)**

Full-time Equivalent Employees as of February 28/29

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Administration of Justice	6,821	6,931	7,820	8,054	8,177	8,115	8,450	8,554	8,818	9,280
Parks	*	*	*	*	*	*	*	*	754	742
County Administration	2,366	2,447	2,612	2,758	2,817	2,627	2,720	2,787	2,885	2,984
Health and Human Services	*	*	*	*	*	*	*	*	1,764	1,656
Flood Control	*	*	276	270	277	289	331	342	320	340
Tax Administration	507	505	458	460	468	450	465	442	442	438
Roads and Bridges	1,017	1,078	677	716	736	752	817	837	857	804
Other *	2,472	2,529	1,489	1,613	1,742	2,050	2,287	2,441	*	*

* Prior to 2006, the smaller expenditure functions were grouped as other on this schedule.

Note: As of February 28, 2007, it is estimated that approximately 2,364 of the County's employees were members of various labor organizations, some of which are unions affiliated with the AFL-CIO. The County does not maintain collective bargaining agreements with any unions.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF OPERATING FUNDS BUDGET FOR THE DISTRICT'S FISCAL YEAR 2007-2008
Schedule 10
(Unaudited)**

On March 6, 2007 the Commissioners Court adopted the budget for the District for the Fiscal Year 2008. The following is a summary the Fiscal Year 2008 Budget for the District's Current Operating Funds:

Cash Balance as of March 1, 2007	\$ 79,019,827
Estimated Revenues:	
Ad Valorem Taxes	62,139,407
Lease Revenues	145,000
Reimbursements and Refunds	5,000
Interest	2,980,404
Total Cash and Estimated Revenues	<u>\$ 144,289,638</u>
Appropriations:	
Current Operating Expenses	\$ 140,572,498
Capital Outlay	3,717,140
Total Appropriations	<u>\$ 144,289,638</u>

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

(amounts in thousands)

Schedule 11

(Unaudited)

Taxpayers	2007			1998		
	2006 Taxable Valuations (a)	Rank	Percentage of Total 2006 Taxable Valuation (b)	1997 Taxable Valuations (a)	Rank	Percentage of Total 1997 Taxable Valuation (c)
Exxon Mobil Corporation	\$ 4,602,425	1	2.04	\$ 2,916,587	1	2.35
Shell Oil Company	2,587,325	2	1.15	1,069,813	4	0.86
Centerpoint Energy, Inc.	2,631,941	3	1.17	-		0.00
Lyondell Chemical	1,877,381	4	0.83	809,084	8	0.65
Chevron Phillips Chemical Company	1,160,997	5	0.52	398,591	15	0.32
Equistar Chemicals Limited Partnership	1,189,311	6	0.53	-		0.00
Southwestern Bell Telephone (SBC)	1,023,759	7	0.45	1,608,513	3	1.29
Crescent Real Estate	957,102	8	0.42	-		0.00
Hines Interests Ltd Partnership	815,157	9	0.36	982,251	5	0.79
Hewlett Packard Company	736,262	10	0.33	-		0.00
Wal Mart	634,476	11	0.28	-		0.00
Rohm & Haas Co.	558,171	12	0.25	472,425	13	0.38
Houston Pipeline Co LP	537,619	13	0.24	-		0.00
Anheuser Busch Inc.	470,566	14	0.21	-		0.00
Weingarten Realty	402,078	15	0.18	-		0.00
Houston Lighting and Power Company	-		0.00	2,151,406	2	1.73
Compaq Computer Corporation	-		0.00	770,018	9	0.62
Quantum Chemical Plant	-		0.00	895,695	7	0.72
Arco Chemical Company	-		0.00	953,209	6	0.77
Hoechst Celanese Chemical	-		0.00	537,768	11	0.43
Phillips Petroleum Company	-		0.00	470,484	14	0.38
Occidental Chemical Corporation	-		0.00	473,742	12	0.38
Lyondell-Citgo Refining Co.	-		0.00	565,221	10	0.45
Total	<u>\$ 20,184,570</u>		<u>8.96%</u>	<u>\$ 15,074,807</u>		<u>12.12%</u>

Source: Harris County Appraisal District.

- (a) Amounts shown for these taxpayers do not include taxable valuations, which may be substantial, attributable to certain subsidiaries and affiliates which are not grouped on the tax rolls with the taxpayers shown.
- (b) Based on the County's total taxable value as of January 26, 2007.
- (c) Based on the County's total taxable value as of January 1, 1998.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF HISTORICAL TAX DEBT OUTSTANDING
Schedule 12
(Unaudited)**

The following table sets forth the District's ad valorem tax debt outstanding, as of the end of the Fiscal years 1997-98 through 2006-07.

Fiscal Year	District's Debt Outstanding (a) (thousands)	Taxable Value (b) (thousands)	Outstanding as a Percentage of Taxable Value	Estimated Population (c)	Debt Outstanding Per Capita
1998	\$ 205,812	\$ 124,232,634	0.17%	3,158,095	65
1999	173,962	130,390,777	0.13	3,206,063	54
2000	151,409	140,969,904	0.11	3,250,404	47
2001	129,239	154,054,104	0.08	3,400,578	38
2002	108,995	167,623,002	0.07	3,460,589	31
2003	92,090	176,174,470	0.05	3,557,055	26
2004	71,800	185,113,324	0.04	3,596,086	20
2005	53,600	194,224,012	0.03	3,644,285	15
2006	38,860	206,309,290	0.02	3,693,050	11
2007	210,110	225,201,409	0.09	3,886,207	54

(a) Includes debt paid for by the District's ad valorem tax revenues.

(b) Taxable values are net of exemptions and abatements. Property is assessed at 100% of appraised value.

(c) Source: Bureau of the Census.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT**

February 28, 2007

Schedule 13

(Unaudited)

	Percentage Applicable To Name of Government	Net Debt (Thousands)
County-Wide Jurisdiction:		
Harris County (2/28/07) (a)	100.00%	\$ 2,297,949
Harris County Flood Control District (2/28/07)	100.00	491,797
Port of Houston Authority (12/31/06)	100.00	381,043
Total County-Wide Direct Debt		<u>3,170,789</u>
Cities:		
Baytown (9/30/06)	80.75	\$ 60,077
Bellaire (9/30/06)	100.00	57,925
Bunker Hill Village (2/8/07)	100.00	14,475
Deer Park (9/30/06)	100.00	37,000
Friendswood (9/30/06)	100.00	18,090
Houston (6/30/06)	99.36	2,256,477
Jacinto City (09/30/06)	100.00	6,431
Jersey Village (9/30/06)	100.00	16,357
Katy (1/31/07)	69.19	8,249
La Porte (9/30/06)	100.00	15,926
League City (9/30/06)	5.52	60,742
Missouri City (06/30/06)	8.33	38,278
Pasadena (9/30/06)	100.00	89,498
Pearland (2/13/07)	6.16	203,662
Piney Point Village (12/31/06)	100.00	11,510
Seabrook (09/30/06)	100.00	11,198
South Houston (9/30/06)	100.00	8,157
Tomball (2/9/07)	100.00	26,975
Webster (9/30/06)	100.00	21,033
West University Place (12/31/06)	100.00	67,445
Other Cities (b)	100.00	7,587
Sub-Total Cities		<u>3,037,092</u>
School Districts and Junior Colleges:		
Aldine (2/28/07)	100.00	201,791
Alief (8/31/06)	100.00	259,017
Channelview (2/9/07)	100.00	99,944
Clear Creek (8/31/06)	80.62	885,690
Crosby (8/31/06)	100.00	70,059
Cypress-Fairbanks (6/30/06)	100.00	1,110,528
Deer Park (8/31/06)	100.00	108,214
Galena Park (8/31/06)	100.00	210,723
Goose Creek (2/28/07)	80.04	292,641
Houston (6/30/06)	100.00	2,041,776
Huffman (8/31/06)	100.00	68,206
Humble (6/30/06)	100.00	418,664
Katy (8/31/06)	88.64	715,737
Klein (8/31/06)	100.00	299,298
La Porte (8/31/06)	100.00	113,740
North Forest (8/31/06)	100.00	115,983
North Harris Montgomery Community College (8/31/06)	78.67	200,568
Pasadena (8/31/06)	100.00	532,777
Pearland (8/31/06)	2.25	356,771
San Jacinto Junior College (2/28/07)	100.00	58,265
Sheldon (8/31/06)	100.00	84,770
Spring (6/30/06)	100.00	774,581
Spring Branch (6/30/06)	100.00	360,970
Tomball (8/31/06)	88.02	141,061
Waller (2/8/07)	31.68	77,545
Other Schools (c)	100.00	26,874
Sub-Total School Districts and Junior Colleges		<u>9,626,193</u>
Utility Districts (d)	100.00	2,785,153
Total Overlapping Debt		<u>15,448,438</u>
Total Direct and Overlapping Debt (Estimated \$4,791 Per Capita) (e)		<u>\$ 18,619,227</u>

(a) Includes all Tax Bonds.

(b) Aggregate net debt of 12 cities, each of which had a net debt of less than \$5,000,000.

(c) Aggregate net debt of 2 schools, each of which had a net debt of less than \$25,000,000.

(d) Estimated aggregate net debt of several hundred utility districts. Source: Texas Municipal Reports

(e) Census Bureau population estimated at 3,886,207. Source: Bureau of the Census.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY ASSESSED VALUES AND TAX RATES
(EXCEPT FLOOD CONTROL DISTRICT)**

LAST TEN FISCAL YEARS

Schedule 14

(Unaudited)

(amounts in thousands)

Fiscal Year	Real Property	Personal Property	Less Exemptions (a)	Total Taxable Assessed Value	M&O Tax Rate	Debt Service Tax Rate	Total County Tax Rate
1998	\$118,033,506	\$ 24,100,180	\$ 17,850,666	\$ 124,283,020	0.35078	0.06788	0.41866
1999	125,452,026	25,255,844	20,271,134	130,436,736	0.37748	0.03912	0.41660
2000	136,396,208	26,962,355	22,345,082	141,013,481	0.35780	0.03703	0.39483
2001	150,845,241	28,397,625	25,145,837	154,097,029	0.32599	0.03303	0.35902
2002	165,804,662	30,668,510	28,809,564	167,663,608	0.33606	0.04787	0.38393
2003	177,809,114	30,171,225	31,764,643	176,215,696 (b)	0.33538	0.05276	0.38814
2004	189,334,256	30,644,381	34,822,427	185,156,210 (b)	0.34490	0.04313	0.38803
2005	199,378,304	32,159,586	37,273,945	194,263,945 (b)	0.33117	0.06869	0.39986
2006	230,050,598	37,313,520	61,017,743	206,346,375 (c)	0.34728	0.05258	0.39986
2007	250,997,888	40,381,452	66,142,090	225,237,250 (c)	0.38106	0.02133	0.40239

(a) Exemptions are primarily made up of the homestead property exemption of 20%. In addition, persons 65 years of age or older receive an exemption up to a maximum individual amount of \$156,240.

(b) HCAD tax supplement as of February 1 of the tax year.

(c) HCAD tax supplement as of January 29 of the tax year.

Source: Harris County Appraisal District.

Note: Property in the county is reassessed each year. Property is assessed at actual value; therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY TAX LEVIES AND COLLECTIONS
(EXCEPT FLOOD CONTROL DISTRICT)**

LAST TEN FISCAL YEARS

Schedule 15

(Unaudited)

(amounts in thousands)

<u>Fiscal Year</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
1998	\$ 518,449	\$ 499,797	96.4	\$ 16,035	515,832	99.5
1999	543,778	522,522	96.1	18,384	540,906	99.5
2000	557,352	538,011	96.5	16,353	554,364	99.5
2001	553,216	547,846	99.0	1,936	549,782	99.4
2002	643,711	617,800	96.0	21,180	638,980	99.3
2003	682,975	657,498	96.3	19,727	677,225	99.2
2004	704,093	693,384	98.5	4,230	697,614	99.1
2005	793,759	740,302	93.3	44,704	785,006	98.9
2006	796,885	719,922	90.3	61,865	781,787	98.1
2007	887,598	793,835	89.4	-	793,835	89.4

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY TAX DEBT OUTSTANDING
Schedule 16
(Unaudited)**

	County's Total Outstanding Tax Debt (a)
Limited Tax Debt	\$ 941,356,629
Unlimited Tax Debt	794,014,342
Flood Control	322,860,000
Toll Road Tax Bonds	704,498,892
Total	\$ 2,762,729,863
Less: Toll Road Tax Bonds	(704,498,892)
Total (Approximately 0.71% of 2006 Assessed Value)	\$ 2,058,230,971

(a) Excluding Flood Control District debt paid for by the District's ad valorem tax revenues. Amounts expressed at gross value, not considering unamortized premium or discount or accretion of capital appreciation bonds.

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY-WIDE AD VALOREM TAX DEBT SERVICE REQUIREMENTS
SCHEDULE 17
(Unaudited)

Fiscal Year	Limited Tax Debt			Unlimited Tax Debt			Toll Road Unlimited Tax & Subordinate Lien Revenue Bonds			Flood Control (a)			Total County-Wide Tax Debt		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 34,425,000	\$ 41,638,479	\$ 76,063,479	\$ 21,687,327	\$ 42,691,402	\$ 64,378,729	\$ 6,068,227	\$ 68,795,042	\$ 74,863,269	\$ 8,755,287	\$ 32,530,835	\$ 41,286,122	\$ 70,935,841	\$ 185,655,758	\$ 256,591,599
2009	37,775,000	40,755,084	78,530,084	23,842,422	40,760,519	64,602,941	10,675,665	64,312,366	74,988,031	7,908,864	32,030,630	39,939,494	80,201,951	177,858,599	258,060,550
2010	40,370,000	38,949,300	79,319,300	26,244,592	38,128,699	64,373,291	41,540,000	45,680,694	87,220,694	8,667,889	30,555,505	39,223,394	116,822,481	153,314,198	270,136,679
2011	38,000,000	37,009,301	75,009,301	34,630,000	34,308,716	68,938,716	43,285,000	43,211,694	86,496,694	8,318,921	28,502,961	36,821,882	124,233,921	143,032,672	267,266,593
2012	45,510,000	35,188,304	80,698,304	30,690,000	32,639,554	63,329,554	44,970,000	40,607,444	85,577,444	8,124,024	26,387,483	34,511,507	129,294,024	134,822,785	264,116,809
2013	52,100,000	31,414,755	83,514,755	28,005,000	31,105,054	59,110,054	47,210,000	38,102,031	85,312,031	9,435,000	24,864,956	34,299,956	136,750,000	125,486,796	262,236,796
2014	40,490,022	27,742,116	68,232,138	18,502,902	32,501,048	51,003,950	57,225,000	27,880,612	85,105,612	9,715,000	24,393,232	34,108,232	125,932,924	112,517,008	238,449,932
2015	42,002,460	26,182,912	68,185,372	19,933,385	28,939,904	48,873,289	63,695,000	20,799,981	84,494,981	8,685,000	23,905,894	32,590,894	134,315,845	99,828,691	234,144,536
2016	43,496,787	24,577,244	68,074,031	19,647,743	28,246,666	47,894,409	42,015,000	18,133,275	60,148,275	7,945,000	23,476,526	31,421,526	113,104,530	94,433,711	207,538,241
2017	45,461,714	22,841,227	68,302,941	18,988,742	27,545,116	46,533,858	27,735,000	16,469,397	44,204,397	7,170,000	23,070,763	30,240,763	99,355,456	89,926,503	189,281,959
2018	46,801,285	20,831,479	67,632,764	19,357,229	26,858,079	46,215,308	28,515,000	15,124,441	43,639,441	7,545,000	22,694,338	30,239,338	102,218,514	85,508,337	187,726,851
2019	40,026,339	18,708,657	58,734,996	32,515,000	26,136,554	58,651,554	29,330,000	13,732,831	43,062,831	22,925,000	22,298,225	45,223,225	124,796,339	80,876,267	205,672,606
2020	26,495,898	17,027,189	43,523,087	34,190,000	24,462,997	58,652,997	30,170,000	12,301,594	42,471,594	39,325,000	21,094,663	60,419,663	130,180,898	74,886,443	205,067,341
2021	36,155,000	15,782,478	51,937,478	35,940,000	22,713,472	58,653,472	31,060,000	10,811,031	41,871,031	41,385,000	19,030,100	60,415,100	144,540,000	68,337,081	212,877,081
2022	36,065,000	14,269,057	50,334,057	37,785,000	20,874,335	58,659,335	20,680,000	9,549,681	30,229,681	45,175,000	16,857,388	62,032,388	139,705,000	61,550,461	201,255,461
2023	37,540,000	13,190,839	50,730,839	39,670,000	18,981,040	58,651,040	21,085,000	8,516,491	29,601,491	47,465,000	14,575,488	62,040,488	145,760,000	55,263,858	201,023,858
2024	27,560,806	11,847,889	39,408,695	41,670,000	16,994,250	58,664,250	21,525,000	7,440,684	28,965,684	49,845,000	12,177,875	62,022,875	140,600,806	48,460,698	189,061,504
2025	69,877,279	10,782,381	80,659,660	43,755,000	14,910,750	58,665,750	21,975,000	6,342,072	28,317,072	10,795,000	9,659,980	20,454,980	146,402,279	41,695,183	188,097,462
2026	19,939,303	7,407,116	27,346,419	38,140,000	12,723,000	50,863,000	12,860,000	5,465,500	18,325,500	26,255,000	9,093,250	35,348,250	97,194,303	34,688,866	131,883,169
2027	32,630,000	6,379,956	39,009,956	38,140,000	10,816,000	48,956,000	12,860,000	4,822,500	17,682,500	26,255,000	7,780,500	34,035,500	109,885,000	29,798,956	139,683,956
2028	33,745,000	5,044,400	38,789,400	38,140,000	8,909,000	47,049,000	12,860,000	4,179,500	17,039,500	12,800,000	6,467,750	19,267,750	97,545,000	24,600,650	122,145,650
2029	16,699,736	4,086,225	20,785,961	38,135,000	7,127,000	45,262,000	12,860,000	3,536,500	16,396,500	12,800,000	5,187,000	17,987,000	80,494,736	19,936,725	100,431,461
2030	24,830,000	3,189,680	28,019,680	38,135,000	5,345,250	43,480,250	12,860,000	2,893,500	15,753,500	12,800,000	3,906,250	16,706,250	88,625,000	15,334,680	103,959,680
2031	25,530,000	2,271,047	27,801,047	38,135,000	3,563,500	41,698,500	12,860,000	2,250,500	15,110,500	12,800,000	2,625,500	15,425,500	89,325,000	10,710,547	100,035,547
2032	26,280,000	1,328,202	27,608,202	38,135,000	1,781,750	39,916,750	12,860,000	1,607,500	14,467,500	80,075,000	1,312,750	81,387,750	157,350,000	6,030,202	163,380,202
2033	21,550,000	359,885	21,909,885	-	-	-	12,860,000	964,500	13,824,500	-	-	-	34,410,000	1,324,385	35,734,385
2034	-	-	-	-	-	-	12,860,000	321,500	13,181,500	-	-	-	12,860,000	321,500	13,181,500
Total	\$ 941,356,629	\$ 478,805,202	\$1,420,161,831	\$ 794,014,342	\$ 559,063,655	\$ 1,353,077,997	\$ 704,498,892	\$ 493,852,861	\$ 1,198,351,753	\$ 532,969,985	\$ 444,479,842	\$ 977,449,827	\$ 2,972,839,848	\$ 1,976,201,560	\$ 4,949,041,408

(a) Includes Flood Control District debt paid for by the District's ad valorem tax revenues and debt paid for by the County's ad valorem tax revenues as a result of refunded commercial paper.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY-WIDE AUTHORIZED BUT UNISSUED BONDS**

**Schedule 18
(Unaudited)
(Amounts in Thousands)**

As of February 28, 2007, the following County-wide ad valorem tax bonds authorized by the voters at elections held in September, 1983, November, 1987, November, 1989, November, 1993, November, 1997, and November, 2001 remain unissued.

The Schedule reflects the County's use of voted authority when it issues general obligation commercial paper notes pursuant to its Series B (parks and libraries) and Series C (roads and bridges) programs.

The Schedule also shows Port of Houston Authority valorem tax bonds that were authorized by the voters at elections held in November, 1989, November, 1993, and November, 1997 but remain unissued. Harris County has no legal responsibility for repayment of these bonds.

County Ad Valorem Tax Bonds

Limited Tax:

Civil Justice Center	\$ 33,000	
Parks	25,000	
Total Limited Tax Bonds		\$ 58,000

Unlimited Tax:

Road Bonds	175,612	
Total Unlimited Tax Bonds		175,612

Combination Unlimited Tax and Revenue:

Toll Roads	17,673	
Total Unlimited Tax and Revenue Bonds		17,673

Harris County Flood Control District Limited Tax Bonds

	-	
Total Harris County Ad Valorem Tax Bonds		251,285

Port of Houston Authority Unlimited Tax Bonds

Port Improvements	208,061	
Deepening and Widening of Houston Ship Channel	-	
Total Port of Houston Authority Bonds		208,061

Total Authorized but Unissued Bonds		\$ 459,346

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF OPERATING FUNDS BUDGET FOR THE COUNTY'S FISCAL YEAR 2007-2008
Schedule 19
(Unaudited)**

On March 6, 2007 the Commissioners Court adopted the budget for the County for the Fiscal Year 2007-2008. The Fiscal Year 2008 Budget included appropriations for some capital projects, which are financed from current revenues. The following is a summary of the Fiscal Year 2007-2008 Budget for the County's Current Operating Funds:

Cash Balance as of March 1, 2007	\$ 205,361,732
Estimated Revenues:	
Ad Valorem and Miscellaneous Taxes	771,269,744
Charges for Services	184,883,801
Fines and Forfeitures	23,705,521
Intergovernmental Revenues	31,340,254
Interest	8,461,975
Other	61,962,424
Total Cash and Estimated Revenues	<u>\$1,286,985,451</u>
Appropriations:	
Current Operating Expenses	\$1,206,895,145
Capital Outlay:	
Roads	57,332,994
Parks	22,757,312
Total Appropriations	<u>\$1,286,985,451</u>

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
GENERAL FUND BALANCES
LAST TEN FISCAL YEARS (modified accrual basis of accounting)
Schedule 20
(amounts in thousands)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
County's General Fund:										
Reserved	\$ 84,666	\$ 71,415	\$ 76,937	\$ 71,535	\$ 69,003	\$ 105,162	\$ 100,143	\$ 112,291	\$ 146,215	\$ 175,301
Uneserved	120,125	207,206	218,634	204,672	246,811	214,160	250,939	203,684	175,581	128,418
Total general fund	<u>\$ 204,791</u>	<u>\$ 278,621</u>	<u>\$ 295,571</u>	<u>\$ 276,207</u>	<u>\$ 315,814</u>	<u>\$ 319,322</u>	<u>\$ 351,082</u>	<u>\$ 315,975</u>	<u>\$ 321,796</u>	<u>\$ 303,719</u>

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY CAPITAL PROJECTS FUNDS BUDGETING**

**Schedule 21
(Unaudited)**

County Capital Projects Funds are used to construct roads, office and court buildings, jails, juvenile home facilities, parks and libraries. Cash and investments on hand in the Capital Projects Funds at February 28, 2007 derived from the sale of bonds and the investment income thereon, are designated to be spent over a period of several years for the following purposes:

Roads	\$ 271,913,635
Permanent Improvements	50,727,913
Flood Control	190,508,309
Reliant Park	<u>13,462,561</u>
Total	<u>\$ 526,612,418</u>



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PORGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Harris County Flood Control District (the "District") 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 programs for the year ended February 28, 2007. The District's major federal programs are identified in the summary of auditor's 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 is the responsibility of the District's management. Our responsibility is to express an opinion on the District'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 program occurred. An audit includes examining, on a test basis, evidence about the District'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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

October 23, 2007

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

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

We have audited the basic financial statements of Harris County Flood Control District (the "District"), as of and for the year ended February 28, 2007, and have issued our report thereon dated October 23, 2007. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the deficiencies described as 07-01 and 07-02 in the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

October 23, 2007

HARRIS COUNTY FLOOD CONTROL DISTRICT, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2007

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Federal Expenditures	Amount Provided to Subrecipients
<u>FEDERAL GRANTS</u>					
<u>U.S. DEPARTMENT OF COMMERCE</u>					
PASS THROUGH PROGRAMS, GENERAL LAND OFFICE:					
7418	Coastal Management Plan	11.419	GLO-04-015	\$ 8,500	\$ -
TOTAL U.S. DEPARTMENT OF COMMERCE				<u>8,500</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>					
PASS THROUGH PROGRAMS, GOVERNORS DIVISION OF EMERGENCY MANAGEMENT:					
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	EMT-2004-PC-0003-03-007	123,574	-
7004	FEMA - Pre-Disaster Mitigation Competitive	97.017	EMT-2004-PC-0003-03-012	625	-
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	PDM05-025	448,669	-
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	PDM05-027	1,346,789	-
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	PDM05-028	2,267,198	-
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	PDM05-029	2,088,562	-
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	PDM05-017	2,019,649	-
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	PDM05-019	874,558	-
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	PDM05-020	1,071,099	-
7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	PDM05-021	1,455,636	-
7293	FEMA - Hazard Mitigation Grant Project	97.039	FEMA-1439-DR-TX-05	4,951	-
7119	FEMA - Hazard Mitigation Grant Project	97.039	FEMA-1606-DR-040	2,036,313	-
PASS THROUGH PROGRAMS, TEXAS WATER DEVELOPMENT BOARD:					
7292	FEMA - FMAP 6 - Flood Mitigation Assistance Program	97.029	0600010096	946,323	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				<u>14,683,946</u>	<u>-</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>					
PASS THROUGH PROGRAMS, ARMY CORPS OF ENGINEERS:					
3310	Brays Bayou Federal Project	12.000	NONE	9,458,253	-
TOTAL U.S. DEPARTMENT OF DEFENSE				<u>9,458,253</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$24,150,699</u>	<u>\$ -</u>

See notes to the schedule of expenditures of federal awards.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity and state grant activity of the District 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 awards provided to subrecipients are treated as an expenditure when paid to the subrecipient.

2. Reconciliation of the Schedule of Expenditures of Federal Awards to Grants Special Revenue Fund of the District's Financial Report for the year ended February 28, 2007:

Federal expenditures per schedule	\$	24,150,699
Add:		
Trial Balance adjustments for modified accrual basis of accounting		374,741
County funded portion of grants		5,668,457
Less:		
Grants - Other fund types		<u>(9,458,253)</u>
Total	\$	<u><u>20,735,644</u></u>
Balance per financial report - Grants Special Revenue Fund	\$	<u><u>20,735,644</u></u>

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

I. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. Material weaknesses in internal control over financial reporting were identified.
3. No 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 awards programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal awards programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The District's major programs were:

Name of Major Federal Program	CFDA Number
FEMA - Flood Mitigation Assistance Program	97.029
FEMA - Pre-Disaster Mitigation Competitive	97.017

8. For federal awards, a dollar threshold of \$724,521 was used to distinguish between Type A and Type B programs, as defined in OMB Circular A-133 and UGMS.
9. The District qualified as a high-risk auditee, as defined in OMB Circular A-133.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

II. FINANCIAL STATEMENT FINDINGS SECTION

Program	Finding/Noncompliance	Questioned Cost
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Finding 07-01 – 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.

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.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

Program	Finding/Noncompliance	Questioned Cost
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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 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

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

Program	Finding/Noncompliance	Questioned Cost
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Finding 07-02 – 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.

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.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

Program	Finding/Noncompliance	Questioned Cost
	<p>Consider options for requiring County departments to communicate to the County Auditor's Office when contracts which relate to capital 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 AWARDS FINDINGS AND QUESTIONED COSTS SECTION

None noted.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

IV. STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Program	Finding/Noncompliance	Questioned Cost
	Finding 06-01	
Coastal Management Plan, CFDA: 11.419; FEMA – Pre-Disaster Mitigation, CFDA: 97.017; FEMA – Hazard Mitigation Grant, CFDA: 97.039; Brays Bayou Contract, CFDA: 12.000	<p><u>Finding:</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>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>Status:</u> The Purchasing Agent has developed policies and procedures to verify the County is not doing business with federally excluded vendors and has provided necessary training to personnel responsible for ensuring policies and procedures are followed.</p>	None

Finding 06-02 – Material Weakness

Finding: 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.

Recommendation: The County Auditor’s Office should communicate 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.

Status: Financial Accounting implemented a procedure during fiscal

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

Program	Finding/Noncompliance	Questioned Cost
	<p>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. 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.</p> <p style="text-align:center">Finding 06-03 – Material Weakness</p> <p><u>Finding:</u> 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.</p> <p><u>Recommendation:</u> 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.</p> <p>Consider options for requiring County departments to communicate to the County Auditor’s Office when contracts which relate to capital 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>Status:</u> The Capital Asset Section is developing a systematic approach for the review of contracts so that transactions are recorded timely and accurately on the financial records of the County. The County Auditor’s Office is working with other County departments to develop a method of identifying non-standard contracts that have an impact on capital assets.</p>	

