

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

*Basic Financial Statements for the
Fiscal Year Ended February 28, 2003*

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

**BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 28, 2003**

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INDEPENDENT AUDITORS' REPORT

County Judge Robert Eckels
and Members of Commissioners Court of
Harris County, Texas:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Harris County Flood Control District (the "District"), a component unit of Harris County, Texas (the "County"), as of February 28, 2003, and for the year then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of February 28, 2003, 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.

As discussed in Note 1 to the financial statements, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which changes note disclosure requirements for governmental entities, for the year ended February 28, 2003.

The Management's Discussion and Analysis and Statement of Revenues and Expenditures – Budget and Actual- Budgetary Basis – Operations and Maintenance (General) Fund are not required parts of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of

measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The supplemental schedules listed in the table of contents have not been subjected to the auditing procedures applied in our 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 10, 2003, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte Touche LLP

October 10, 2003

**Harris County Flood Control District
Management's Discussion and Analysis
Year Ended February 28, 2003
(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 performance of the District during the fiscal year ended February 28, 2003. Please read it in conjunction with the District's basic financial statements following this section.

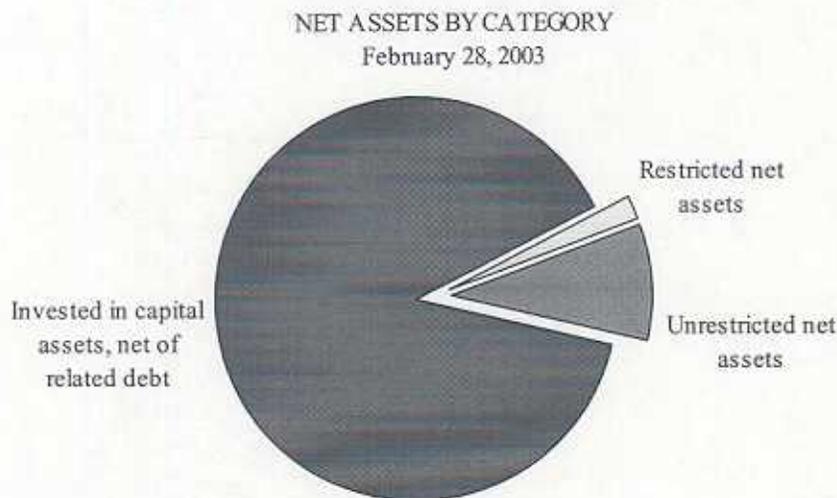
The District is a component unit of Harris County, Texas (the "County") and is included as a blended component unit in the County's financial statements. This analysis presents information about the District and the operations and activities of the District legal entity only and is not intended to provide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

Because fiscal year ended February 28, 2003 is the first year in which the District implemented the provisions of Government Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" ("GASB Statement No. 34"), this MD&A does not provide comparisons with the previous year. Future reports will provide such comparisons.

FINANCIAL HIGHLIGHTS

Government-wide

- The total government-wide assets of the District exceeded the liabilities at February 28, 2003 by \$1,285,609,283 and is reported as total net assets. Of this amount, \$119,048,970 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors, \$24,107,711 is restricted for specific purposes (restricted net assets) and \$1,142,452,602 is invested in capital assets, net of related debt.



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

Fund Level

- As of February 28, 2003, the District's governmental funds reported combined fund balances of \$140,562,192. Approximately 37.7% of the combined fund balances is available to meet the District's current and future needs and is reported as unreserved fund balances.
- At the end of the fiscal year, unreserved fund balance for the Operations and Maintenance (General) fund was \$35,614,954, or 78.9% of total general fund expenditures.
- The fund balance in the Debt Service fund was fully reserved at the end of the fiscal year.
- The Capital Projects fund at fiscal year end had an unreserved - designated fund balance of \$17,348,668, or 21.8% of total capital projects expenditures, and \$43,304,519 of reserved fund balance.
- The District issues debt to finance an ongoing capital improvement program. During fiscal year 2002-2003, the District issued \$44,495,000 in refunding revenue bonds. Note 6 provides details of long-term debt. The debt service ad-valorem tax rate for the 2002 tax year for the District totaled \$0.01321 per \$100 valuation to fund the annual debt service requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise 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 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.

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

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

only governmental activities. The governmental activities of the District include flood control and tax administration.

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. The District has only governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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 a 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 three individual governmental 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), Debt Service, and Capital Projects – as all of the funds are major funds.

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 on pages 15 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 on pages 35 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This year is the first period the District applied GASB Statement No. 34. 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 \$1,285,609,283 at the close of the most recent fiscal year.

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

February 28, 2003 (Amounts in thousands)	
<u>Harris County Flood Control District</u>	
	Governmental Activities
Current and other assets	\$ 162,122
Capital Assets	1,418,676
Total assets	1,580,798
Current and other liabilities	18,320
Long-term liabilities	276,868
Total liabilities	295,188
Net assets:	
Invested in capital assets, net of related debt	1,142,453
Restricted net assets	24,108
Unrestricted net assets	119,049
Total net assets	\$ 1,285,610

The largest portion of the District's current fiscal year net assets, 88.9%, 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.

Another portion of the District's current fiscal year net assets, 1.9%, represents resources that are subject to external restrictions on how they may be used.

The remaining balance of the District's current fiscal year net assets, 9.2%, represents unrestricted net assets, which may be used to meet the District's ongoing obligations to citizens and creditors.

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

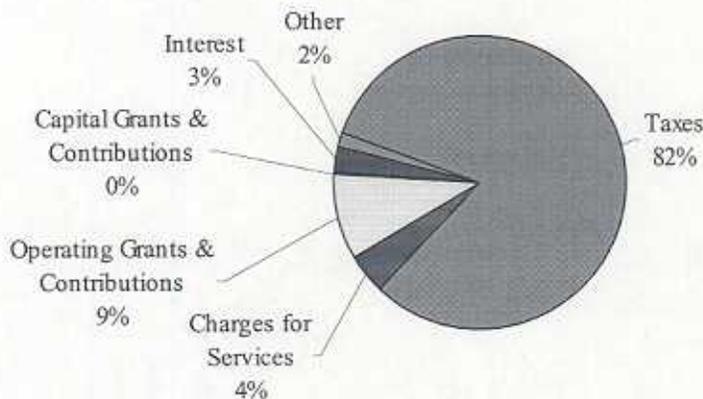
The following table indicates changes in net assets for governmental activities:

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

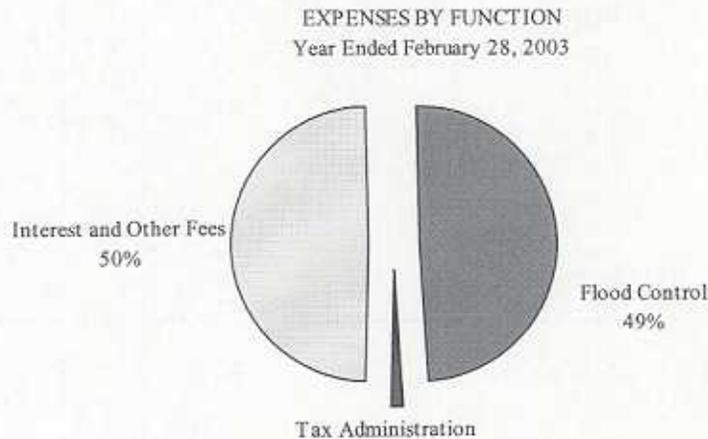
**Statement of Activities
(In Thousands)
For the Year Ended February 28, 2003**

	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for Services	\$ 3,862
Operating grants and contributions	8,235
Capital grants and contributions	377
General revenues:	
Property taxes	70,991
Unrestricted investment earnings	2,861
Gain on sale of capital asset	77
Miscellaneous	920
Total revenues	<u>87,323</u>
Expenses:	
Flood control	23,166
Tax Administration	580
Interest and other fees	23,586
Total expenses	<u>47,332</u>
Change in net assets	39,991
Adjusted net assets - beginning	1,245,618
Net assets - ending	<u>\$ 1,285,609</u>

REVENUES BY SOURCE
Year ended February 28, 2003



*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, 2003, the District's governmental funds reported combined fund balances of \$140,562,192. Approximately 37.7% of the combined fund balances constitutes unreserved fund balance, which is available to meet the District's current and future needs. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for encumbrances, \$62,803,614, and debt service, \$24,794,956.

The Operating and Maintenance (General) Fund is the chief operating fund of the District. At February 28, 2003, the Operating and Maintenance Fund reported revenues of \$51,183,578.

The Debt Service Fund reported revenues of \$24,040,112 at February 28, 2003. The majority of these revenues are from property taxes. See Note 3 for further discussion of property taxes.

The Capital Projects fund relies heavily on the issuance of bonds and commercial paper to support current and future projects. At February 28, 2003 this fund reported revenues of \$13,814,854 with additional financing of \$57,682,000 from commercial paper. See Note 6 for further discussion of commercial paper.

OPERATING AND MAINTENANCE (GENERAL) FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a \$28,293,974 increase in appropriations and can be briefly summarized as follows:

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

During the year actual revenues were less than budgetary estimates by \$9,372,116. Actual expenditures were less than budgetary estimates by \$77,241,808. The net effect of under-realization of revenues and under-utilization of appropriations resulted in a positive variance of \$67,869,692, thus eliminating the need to draw upon the existing fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of February 28, 2003, amounted to \$1,418,675,715 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, flood control infrastructure, equipment, and construction in progress. For further information regarding capital assets, see Note 5.

Long-term debt

At February 28, 2003, the District had total long-term liabilities outstanding of \$276,868,635. Refer to Note 6 for a detailed breakdown of long-term liabilities owed by the District

ECONOMIC FACTORS

The District plans to spend \$802,338,000 on various flood control projects during the five-year period of FYs 2004 – 2008. Approximately \$615,000,000 for the projects will be funded by the District the remaining amount will be funded by the federal government and impact fees.

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.

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
February 28, 2003

	Governmental Activities
ASSETS	
Cash and investments (Note 2):	
Cash and cash equivalents	\$ 131,573,928
Investments	22,455,434
Receivables:	
Taxes, net (Note 3)	4,527,179
Accounts	957,879
Accrued interest	483,373
Due from primary government	1,767,404
Deferred charges	356,615
Capital assets (Note 5):	
Land, improvements, and construction in progress	1,264,563,683
Other capital assets, net of depreciation	154,112,032
Total assets	1,580,797,527
 LIABILITIES	
Liabilities:	
Vouchers payable	13,233,709
Accrued payroll and compensated absences	1,045,453
Retainages payable	674,490
Due to primary government	1,717,816
Accrued interest	1,648,141
Long-term liabilities (Note 6):	
Due within one year:	
Bonds payable	19,975,000
Compensated absences	231,126
Due in more than one year:	
Bonds payable	160,838,728
Commercial paper payable	95,766,000
Compensated absences	57,781
Total liabilities	295,188,244
 NET ASSETS	
Invested in capital assets, net of related debt	1,142,452,602
Restricted for debt service	24,107,711
Unrestricted	119,048,970
Total net assets	\$ 1,285,609,283

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, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Governmental Activities</u>
Governmental activities					
Flood control	\$ 23,166,323	\$ 3,862,074	\$ 8,235,115	\$ 377,045	\$ (10,692,089)
Tax administration	579,853	-	-	-	(579,853)
Interest on long-term debt	23,585,630	-	-	-	(23,585,630)
Total governmental activities	<u>47,331,806</u>	<u>3,862,074</u>	<u>8,235,115</u>	<u>377,045</u>	<u>(34,857,572)</u>

General revenues:

Taxes:	
Property taxes levied for general purposes	50,325,726
Property taxes levied for debt service	20,665,063
Earnings on investments	2,861,212
Gain on sale of capital assets	76,745
Miscellaneous	920,151
Total general revenues	<u>74,848,897</u>
Change in net assets	39,991,325
Adjusted net assets - beginning	1,245,617,958
Net assets - ending	<u>\$ 1,285,609,283</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, 2003

	<u>Operations and Maintenance (General)</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total 2003</u>
ASSETS				
Cash and investments (Note 2):				
Cash and cash equivalents	\$ 59,223,450	\$ 1,460,240	\$ 70,890,238	\$ 131,573,928
Investments	-	22,455,434	-	22,455,434
Receivables:				
Taxes, net (Note 3)	3,145,969	1,381,210	-	4,527,179
Accounts	640,426	317,453	-	957,879
Accrued interest	193,575	9,867	279,931	483,373
Due from primary government	986,582	722,621	58,201	1,767,404
Total assets	<u>\$ 64,190,002</u>	<u>\$ 26,346,825</u>	<u>\$ 71,228,370</u>	<u>\$ 161,765,197</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Vouchers payable	\$ 4,485,767	-	\$ 8,747,942	\$ 13,233,709
Accrued payroll and compensated absences	1,045,453	-	-	1,045,453
Retainages payable	166,732	-	507,758	674,490
Due to primary government	227,674	\$ 170,659	1,319,483	1,717,816
Deferred revenue	3,150,327	1,381,210	-	4,531,537
Total liabilities	<u>9,075,953</u>	<u>1,551,869</u>	<u>10,575,183</u>	<u>21,203,005</u>
Fund balances:				
Reserved for:				
Encumbrances	19,499,095	-	43,304,519	62,803,614
Debt service	-	24,794,956	-	24,794,956
Unreserved:				
Designated for capital projects	-	-	17,348,668	17,348,668
Undesignated	35,614,954	-	-	35,614,954
Total fund balances	<u>55,114,049</u>	<u>24,794,956</u>	<u>60,653,187</u>	<u>140,562,192</u>
Total liabilities and fund balances	<u>\$ 64,190,002</u>	<u>\$ 26,346,825</u>	<u>\$ 71,228,370</u>	<u>\$ 161,765,197</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, 2003**

Total fund balances for governmental funds \$ 140,562,192

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	\$ 1,220,586,857	
Construction in progress	43,976,826	
Flood control projects, net of \$117,140,438 accumulated depreciation	148,155,568	
Buildings, net of \$1,109,327 accumulated depreciation	2,221,379	
Equipment and vehicles, net of \$4,048,486 accumulated depreciation	<u>3,735,085</u>	
Total capital assets (See Note 5)		1,418,675,715

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 long-term - are reported in the statement of net assets.

Balances as February 28, 2003 were:

Accrued interest on bonds	(1,648,141)	
Bonds payable	(180,813,728)	
Deferred charges	356,615	
Commercial paper payable	-	
Compensated absences	<u>(288,907)</u>	
		(182,394,161)

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.

4,531,537

Total net assets of governmental activities

\$ 1,381,375,283

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, 2003

	Operations and Maintenance (General)	Debt Service	Capital Projects	Total 2003
REVENUES				
Taxes (Note 3)	\$ 49,590,215	\$ 23,596,948	-	\$ 73,187,163
Charges for services	27	-	-	27
Intergovernmental	190,416	-	\$ 8,545,268	8,735,684
Interest	894,054	442,964	1,524,194	2,861,212
Miscellaneous	508,866	200	3,745,392	4,254,458
Total revenues	<u>51,183,578</u>	<u>24,040,112</u>	<u>13,814,854</u>	<u>89,038,544</u>
EXPENDITURES				
Current operating:				
Flood control	13,177,778	-	-	13,177,778
Tax administration	579,853	-	-	579,853
Capital outlay	31,385,863	-	79,746,329	111,132,192
Debt service (Note 6):				
Principal retirement	-	15,979,644	-	15,979,644
Interest and fiscal charges	-	18,635,680	-	18,635,680
Total expenditures	<u>45,143,494</u>	<u>34,615,324</u>	<u>79,746,329</u>	<u>159,505,147</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,040,084</u>	<u>(10,575,212)</u>	<u>(65,931,475)</u>	<u>(70,466,603)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in from Harris County	400,000	-	-	400,000
Operating transfers in	-	144,488	-	144,488
Operating transfers out	-	-	(144,488)	(144,488)
Proceeds from sale of refunding bonds	161,000	44,334,000	-	44,495,000
Proceeds from premium on bonds issued	-	1,984,391	-	1,984,391
Proceeds from sale of commercial paper	-	-	57,682,000	57,682,000
Payment to refunding bond escrow agent	-	(46,086,870)	-	(46,086,870)
Proceeds from sale of capital assets	201,283	-	1,252,409	1,453,692
Total other financing sources (uses)	<u>762,283</u>	<u>376,009</u>	<u>58,789,921</u>	<u>59,928,213</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>6,802,367</u>	<u>(10,199,203)</u>	<u>(7,141,554)</u>	<u>(10,538,390)</u>
Fund balances, beginning	<u>48,311,682</u>	<u>34,994,159</u>	<u>67,794,741</u>	<u>151,100,582</u>
Fund balances, ending	<u>\$ 55,114,049</u>	<u>\$ 24,794,956</u>	<u>\$ 60,653,187</u>	<u>\$ 140,562,192</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
February 28, 2003

Net change in fund balances - total governmental funds \$ (10,538,390)

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. 100,980,020

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

Debt issued:		
Refunding bonds	\$ (44,495,000)	
Premium on refunding bonds	(1,984,391)	
Commercial paper	(57,682,000)	
Repayments:		
To paying agent for bond principal	15,979,644	
To refunding bond escrow agent	46,086,870	
Refunding interest expense	(375,618)	
Net adjustment	(42,470,495)	(42,470,495)

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 7 balances.

Compensated absences	2,627	
Amortization of debt premium	(6,257,151)	
Accretion of discount	1,069,428	
Amortization of advanced refunding difference	(69,947)	
Accrued interest on bonds	487,723	
Amortization of deferred charges	(35,314)	
Capitalization of deferred charges	391,929	
Combined adjustment	(4,410,705)	(4,410,705)

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 decreased by this amount in the current period. (2,192,158)

The net effect of sales involving capital assets is to increase net assets. (1,376,947)

Change in net assets of governmental activities \$ 39,991,325

See notes to the financial statements.

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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.

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. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB 34"), establishes accounting and financial reporting standards for state and local governments in order to enhance the understandability and usefulness of the financial reports to citizenry, legislative and oversight bodies, and investors and creditors.

GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus and Amendment of GASB Statements No. 21 and No. 34*, revises the escheat reporting requirements, limits the topics discussed in MD&A, eliminates capitalization of construction-period interest requirement on capital assets used in government activities, and further clarifies provisions of GASB 34.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, modifies, establishes, and rescinds certain financial statement disclosure requirements.

The GASB determined that fund accounting has and will continue to be essential in helping

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governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The implementation of these standards had the following impact in the accompanying financial statements:

- Presentation of Management's Discussion and Analysis
- Presentation and classification of net assets
- Reporting certain additional footnote disclosures.

The following table shows beginning net assets – governmental activities - restated for the effects of the implementation of GASB 34:

Fund balance, March 1, 2002, as previously reported	\$ 151,100,582
Net capital assets	1,319,072,642
Deferred revenues - taxes	6,723,695
Interest payable	(2,135,864)
Long-term debt	<u>(229,143,097)</u>
Net assets, March 1, 2002, full accrual	<u>\$ 1,245,617,958</u>

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

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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 and tax administration 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. 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.

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 only governmental funds 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.

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

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

D. BUDGETS

Annual appropriation budgets are adopted for the Flood Control Operations and Maintenance (General) Fund and the Flood Control Debt Service Funds. Commissioners Court appoints the County Budget Officer, who prepares the proposed budget using revenue estimates furnished by the County Auditor. 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 Funds:

- 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. Available resources include the unrestricted cash and investment balance at the beginning of the fiscal year plus estimated revenues 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 and includes estimated available financial resources and proposed expenditures.
- 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.
- The department is the legal level of budgetary control. Commissioners Court approval is necessary to transfer appropriations between departments. Transfers may not increase the total budget.
- Annual budgets are legally adopted for the General Fund and Debt Service Fund. Budgets for Capital Projects are established on a project basis.
- Transfers cannot exceed the original appropriation level adopted for the fund during the fiscal year.
- Appropriations lapse at year-end.

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- Budgets are prepared on a cash basis (budget basis) which differs from a GAAP basis.

E. CASH 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 as of February 28, 2003, with the difference between the purchase price and market price being recorded as interest income.

F. INTERFUND TRANSACTIONS

During the course of normal operations, the District has many transactions between funds. The accompanying financial statements reflect as operating transfers the expenditures and transfers of resources 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 roads, bridges, 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. 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:	
Bridges	40
Flood control channels	25-75
Roads	20-50
Storm sewers	30-75
Tunnels	40

H. COMPENSATED ABSENCES

Accumulated compensatory leave, 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 sick leave hours. Unused sick leave benefits are not paid at termination. Employees with more than one year of service accrue from two to four weeks of vacation annually, depending on years of service. Unused vacation benefits lapse at calendar year-end or upon termination, except for exempt employees who may convert such benefits to compensatory time, subject to a 240 hour maximum.

Non-exempt employees earn compensatory time at one and one-half times their full pay times the excess of 40 hours per week worked. Non-exempt employees can carry forward compensatory time up to 240 hours indefinitely. 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.

As of February 28, 2003, \$984,584 has been recorded as accrued vacation and compensatory leave in the government-wide financial statements. \$926,803 is considered current.

I. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted

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in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

State statutes authorize the District to invest in fully collateralized or insured time deposits, direct debt securities of the United States or its Agencies, investment grade commercial paper, money market mutual funds and fully collateralized repurchase agreements. District policy requires repurchase agreements be purchased under a master repurchase agreement which specifies the rights and obligations of both parties and requires that the securities involved in the transaction be held in a safekeeping account subject to the control and custody of the District. The margin requirement for all repurchase agreements is that market value must be at least 101% of the purchase price. Investments in repurchase agreements may be made only through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in the State of Texas with which the District has signed a master repurchase agreement.

Deposits:

As of February 28, 2003, the carrying amount of the District's demand and time deposits was \$0. All cash in bank accounts was swept to money market mutual funds at February 28, 2003.

Investment Policies:

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in investments that protect principal, are consistent with the operating requirements of the District, and yield the highest possible rate of return. The District's written investment policy specifically excludes investments in mortgaged-backed securities and bankers' acceptances.

In practice, the District's investments are limited to obligations of the United States or its instrumentalities, Federal agencies, fully collateralized repurchase agreements, commercial paper, municipal obligations rated AA or higher, and money market mutual funds. Under Texas law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."

Investments:

As of February 28, 2003 the District's investible funds were \$154,029,362. The following percentages

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of the District's investible funds were invested in the following categories of investments, the average remaining maturity of such investments was 140 days.

Distribution of District Investible Funds

U.S. Government Securities	73.4%
Money Market Mutual Funds	3.0%
Commercial Paper	18.3%
Municipal Securities	5.3%

The District's investments are categorized below to give an indication of the level of risk, with Category 1 being the lowest level of risk to Category 3 being the highest level of risk. Investments are included in the credit risk categories as follows:

- Category 1: Insured or registered, or for which the securities are held by the District or its agent in the District's name.
- Category 2: Uninsured and unregistered, for which the securities are held by the District's counterparty's trust department or agent in the District's name.
- Category 3: Uninsured and unregistered, for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

Shown below are the District's investments by risk category as of February 28, 2003.

	Categories			Fair Value
	1	2	3	
U. S. Government Securities	\$108,212,397	\$4,886,597		\$113,098,994
Commercial Paper	28,105,461			28,105,461
Municipal Securities	8,197,855			8,197,855
Subtotal	\$144,515,713	\$4,886,597		\$149,402,310
Money Market Mutual Funds				4,627,052
TOTAL INVESTMENTS				\$154,029,362

3. PROPERTY TAXES

Property taxes for the District are levied each October 1 on the assessed value as of the preceding

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January 1 for all taxable real and personal property. 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 County is responsible for setting the tax rate for Harris County, the District, Harris County Hospital District and Port of Houston Authority - Debt Tax Rate, only.

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 adopted the following tax rates on behalf of the District for the 2002 tax year, per \$100 of taxable valuation:

	Operations and Maintenance <u>(General)</u>	<u>Debt Service</u>	<u>Total</u>
Flood Control District	\$0.02853	\$0.01321	\$0.04174

Property tax receivables of \$4,527,179 as of February 28, 2003 are reported net of an allowance for uncollectible taxes of \$18,893,343.

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

The individual major funds within the District had no interfund balances at February 28, 2003.

The following is a summary of the District's transfers for the year ended February 28, 2003:

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Transfers In:

Transfers Out:	General Fund	Debt Service Fund	Capital Project Fund	Total
General Fund	-	-	-	-
Debt Service Fund	-	-	-	-
Capital Projects Fund	-	\$ 144,488	-	\$ 144,488
Total	-	\$ 144,488	-	\$ 144,488

The transfer is routine in nature.

5. CAPITAL ASSETS

Capital assets transactions are summarized as follows:

	Restated Balance March 1, 2002	Additions	Disposals	Transfers	Balance February 28, 2003
Governmental Activities:					
Land	\$ 1,137,215,022	\$ 84,686,959	\$ (1,315,124)		\$ 1,220,586,857
Construction Work in Progress	27,686,005	25,093,304		\$ (8,802,483)	43,976,826
Total capital assets not depreciated	<u>1,164,901,027</u>	<u>109,780,263</u>	<u>(1,315,124)</u>	<u>(8,802,483)</u>	<u>1,264,563,683</u>
Buildings	2,773,138	557,568			3,330,706
Equipment	8,049,464	794,361	(1,060,254)		7,783,571
Flood Control Projects	256,493,523			8,802,483	265,296,006
	<u>267,316,125</u>	<u>1,351,929</u>	<u>(1,060,254)</u>	<u>8,802,483</u>	<u>276,410,283</u>
Less accumulated depreciation for:					
Buildings	(969,447)	(139,880)			(1,109,327)
Equipment	(3,157,783)	(1,889,134)	998,431		(4,048,486)
Flood Control Projects	(109,017,280)	(8,123,158)			(117,140,438)
	<u>(113,144,510)</u>	<u>(10,152,172)</u>	<u>998,431</u>		<u>(122,298,251)</u>
Total capital assets being depreciated, net	<u>154,171,615</u>	<u>(8,800,243)</u>	<u>(61,823)</u>	<u>8,802,483</u>	<u>154,112,032</u>
Governmental activities capital assets, net	<u>\$ 1,319,072,642</u>	<u>\$ 100,980,020</u>	<u>\$ (1,376,947)</u>		<u>\$ 1,418,675,715</u>

Depreciation expense was charged to the Flood Control function of the District for \$10,152,172.

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6. LONG-TERM DEBT

A. OVERVIEW - SUMMARY OF 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.

B. BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS - CHANGES IN FY 2003

The following is a summary of the governmental long-term debt transactions:

	<u>Balance Outstanding March 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance Outstanding February 28, 2003</u>	<u>Amount Due Within One Year</u>
Governmental Activities					
Total Bonds Payable - Principal	\$ 108,994,629	\$ 44,495,000	\$ 61,399,644	\$ 92,089,985	\$ 19,975,000
Amortized premium, Series 1991	611,243	-	611,243	-	-
Unamortized Premium, Series 1993	6,216,434	-	458,185	5,758,249	-
Unamortized Premium, Series 2002		1,984,391	453,288	1,531,103	
Accretion of Discount - Compound Interest Bonds:					
Series 1991	66,537,624	5,111,407	-	71,649,031	-
Series 1993	8,407,633	1,599,032	-	10,006,665	-
Bond Refunding Loss, Series 2002	-	(291,252)	(69,947)	(221,305)	-
Total Bonds Payable	190,767,563	52,898,578	62,852,413	180,813,728	19,975,000
Commercial Paper Payable	38,084,000	57,682,000	-	95,766,000	-
Compensatory Time Payable	291,534	-	2,627	288,907	231,126
Total	\$ 229,143,097	\$ 110,580,578	\$ 62,855,040	\$ 276,868,635	\$ 20,206,126

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.

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C. OUTSTANDING BONDED DEBT - FEBRUARY 28, 2003

	<u>Interest Rates(%)</u>	<u>Date Series</u>		<u>Balance February 28, 2003</u>
		<u>Issued</u>	<u>Matures</u>	
Refunding Series 1993	(a)	1993	2015	\$50,669,985
Refunding Series 2002	3.00 – 5.50	2002	2014	<u>41,420,000</u>
TOTAL				<u>\$92,089,985</u>

a) Includes Compound Interest Bonds @ 5.40-5.60% to mature 2007-2011. Includes Current Interest Bonds @ 4.60-5.60% to mature 2003-2015.

D. DEBT SERVICE REQUIREMENTS

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2004	\$19,975,000	\$3,973,003	\$23,948,003
2005	18,250,000	3,262,793	21,512,793
2006	14,685,000	2,368,143	17,053,143
2007	12,460,000	1,651,073	14,111,073
2008	3,975,287	9,447,076	13,422,363
2009-2013	15,584,698	18,656,689	34,241,387
2014-2016	<u>7,160,000</u>	<u>629,400</u>	<u>7,789,400</u>
TOTAL	<u>\$92,089,985</u>	<u>\$39,988,177</u>	<u>\$132,078,162</u>

E. UNISSUED AUTHORIZED BONDS

As of February 28, 2003, the District has voter authorization to issue \$95,000,000 of additional property tax bonds.

F. DEFEASANCE OF DEBT

On May 22, 2002 the District issued \$44,495,000 Refunding Bonds, Series 2002. The proceeds of the bonds were used to refund a portion of the District's Series 1991 Refunding Bonds and all of Series 1992A and Series 1992B Bonds, and to pay certain costs incurred in connection with the issuance of the refunding bonds. The annual interest rates range from 3.0% to 5.5%. The issuance

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had a premium of \$1,984,391. The refunding resulted in a decrease of cash flow requirements of \$3,097,821 and an economic gain of \$2,503,145.

In prior years, the District defeased certain property tax bonds by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. As of February 28, 2003, the outstanding principal balance of these defeased Flood Control property tax bonds was \$0.

G. COMMERCIAL PAPER

On August 21, 2001, Commissioners Court authorized and took action to issue \$200,000,000 in commercial paper notes designated as the Harris County Flood Control District Contract Tax Commercial Paper Notes, Series F ("Series F Notes"). The purpose of Series F Notes is to provide funding for projects identified in an agreement between the County and the District ("Flood Contract") as well as to 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 District from the County under the Flood Contract. Under the Flood Contract, the District pays all costs relating to the County flood control projects and issues notes to provide the funding for such projects.

The County's commitment under the Flood Contract is the payment to the District of amounts necessary for the principal and/or interest coming 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 the County's ad valorem taxes which extends until all obligations under the Series F Notes, including any obligations to refund the notes, are no longer outstanding. During the term of the Flood Contract, the County is required to levy taxes computed at a tax rate sufficient to provide the funds required to make the annual payments and to provide and maintain a sinking fund adequate for such amounts as they become due. Commissioners Court issued an order whereby the sinking fund may never be less than 2% of the County's outstanding indebtedness under the Flood Contract at the time of the tax levy. In setting the tax rate, the County may consider all sources of funding lawfully available or that are to be available including the credit agreement entered into for the Series F Notes, discussed below. Because of the timing of adoption of tax rates, the County has not yet been required to set a tax rate as of February 28, 2003. However, the County has allocated other available funds sufficient to pay

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the annual amounts due under the Flood Contract prior to the required first adoption of the tax rate. Based on the County's outstanding indebtedness under the Flood Contract as of February 28, 2003, this amount required under the 2% limitation is estimated to be \$1,915,320.

Under a dealer agreement between the District and Morgan Stanley & Co. Incorporated, the Series F Notes are issued in denominations of a minimum of \$100,000 and integral multiples of \$1,000 thereafter and may bear interest or sold at a discount. The dealer agreement does not provide for extension, renewal, or automatic rollover of the notes upon maturity. In consideration for the services of the dealer, the 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 District and the New York branch of Landesbank Hessen-Thuringen Girozentrale bank. 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 initial term of the letter of credit expires August 1, 2004 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 District is charged a quarterly fee, based on the daily average amount of the outstanding draws against the letter of credit, ranging from .12% to .14%. 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, 2003, loans existed for the full \$95,766,000 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, 2003 (1.24%) over the next three years:

Fiscal Year	Principal	Interest	Total
2004		\$ 604,365	\$ 604,365
2005	\$ 13,680,857	1,208,728	14,889,585
2006	54,723,428	777,042	55,500,470
2007	27,361,715	129,507	27,491,222
Total	<u>\$ 95,766,000</u>	<u>\$ 2,719,642</u>	<u>\$ 98,485,642</u>

**HARRIS COUNTY FLOOD CONTROL DISTRICT
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H. SUBSEQUENT BOND ISSUANCES

On September 25, 2003 the District issued \$36,945,000 in Refunding Bonds, Series 2003A. The bonds are being issued to refund and defease the outstanding Harris County Flood Control District Improvement and Refunding Bonds, Series 1993. The interest rates range from 3% to 6%.

I. ARBITRAGE REBATE LIABILITY

The Tax Reform Act of 1986 established regulations for the rebate to the federal government of arbitrage earnings on certain local government bonds issued after December 31, 1985, and all local governmental bonds issued after August 31, 1986. Issuing governments must calculate any rebate due and remit the amount due at least every five years. There were no arbitrage rebate payments made during fiscal year 2003. As of February 28, 2003 there were no estimated liabilities for arbitrage rebate on governmental or enterprise debt. The Debt Service Funds have typically been used to liquidate arbitrage liabilities in previous year.

7. NET ASSETS AND FUND BALANCES

A. RESERVATIONS, DESIGNATIONS, AND RESTRICTIONS

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

B. 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 encumbrances.

8. 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 TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement

**HARRIS COUNTY FLOOD CONTROL DISTRICT
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system consisting of 535 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 2003 is 10.31%. The contribution rates for 2002 and 2001 were 9.86 % and 9.95% respectively.

The plan provisions are adopted by the governing body of the District, 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 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, 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 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 9.86% for the months of the accounting year in 2002, and 10.31% for the months of the accounting year in 2003.

The contribution rate payable by the employee members for 2002 and 2003 is the rate of 7% as adopted by Commissioners Court. The employee contribution rate and the employer contribution rate may be changed by Commissioners Court, within the options available in the TCDRS Act.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
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Annual Pension Cost

For the County's accounting year ending February 28, 2003, the annual pension cost for the TCDRS plan for its employees, including the District, was \$56,254,388, and the actual contributions for the District were \$1,246,939.

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, 2001 and December 31, 2002, which were the basis for determining the contribution rates for calendar years 2002 and 2003. The December 31, 2002 actuarial valuation is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/00	12/31/01	12/31/02
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period in years	20	20	20
Asset Valuation Method	Long-term appreciation with adjustments	Long-term appreciation with adjustments	Long-term appreciation with adjustments
Actuarial Assumption			
Investment return (1)	8.0 %	8.0 %	8.0 %
Projected Salary Increases (1)	5.9 %	5.5 %	5.5 %
Inflation	4.0 %	3.5 %	3.5 %
Cost of Living Adjustments	0.0%	0.0%	0.0%
(1) Includes inflation at the stated rate.			

Trend Information			
Accounting Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2/28/03	\$ 56,254,388	100%	-
2/28/02	\$ 48,448,052	100%	-
2/28/01	\$ 47,979,693	100%	-

**HARRIS COUNTY FLOOD CONTROL DISTRICT
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February 28, 2003**

Schedule of Funding			
Actuarial Valuation Date	12/31/00	12/31/01	12/31/02
Actuarial Value of Assets	\$1,265,141,379	\$1,380,976,806	\$1,484,207,932
Actuarial Accrued Liability (AAL)	\$1,441,046,300	\$1,578,523,738	\$1,711,255,341
Unfunded Actuarial Accrued Liability (UAAL)	\$ 175,904,921	\$ 197,546,932	\$ 227,047,409
Funded Ratio	87.79%	87.49%	86.73%
Annual Covered Payroll (Actuarial)	\$ 488,879,345	\$ 509,600,340	\$ 537,764,574
UAAL as Percentage of Covered Payroll	35.98%	38.77%	42.22%

9. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits described herein, the District provides certain retirement health care and life insurance benefits for retired employees. In accordance with the Personnel Regulations adopted by Commissioners Court, all District employees may become eligible for these benefits after meeting the service and retirement age requirements of the District's retirement plan. These requirements, which were modified effective January 1, 1996, require 30 years of service, or 8 years of service and 60 years of age, or years of service plus age equal to 75 or more. The District recognizes expenditures for retirement benefits as incurred, which during fiscal year 2003 totaled \$625,387. Presently, 155 retirees qualified for retirement benefits.

10. 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 is committed under various contracts in connection with the construction of flood control facilities, buildings, and projects of \$43,304,519.

11. 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

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2003

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, 2003 is \$750,000 per occurrence. During the last three fiscal years, five 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 retirees 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 Internal Service 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.

**12. RECENT ACCOUNTING PRONOUNCEMENT – GASB STATEMENT NO. 39,
“DETERMINING WHETHER CERTAIN ORGANIZATIONS ARE COMPONENT UNITS”
 (“GASB NO. 39”)**

The Government Accounting Standards Board has issued Statement No. 39 (“GASB 39”), Determining Whether Certain Organizations are Component Units which will be effective for the District in the fiscal year ending February 28, 2005. GASB 39 requires state and local governments to report legally separate, tax exempt organizations as discrete component units if they meet the following criteria:

**HARRIS COUNTY FLOOD CONTROL DISTRICT
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February 28, 2003**

- The economic resources raised and held by the affiliated organization almost entirely is for the benefit of the District.
- The District is entitled to or has the ability to access the funds raised by the affiliated organization.
- The funds held by the affiliated organization are material to the District's financial statements.

Management of the District does not believe the implementation of this standard will have a material impact on the District's financial statements.

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS
OPERATIONS AND MAINTENANCE (GENERAL) FUND
For The Year Ended February 28, 2003

	OPERATIONS AND MAINTENANCE (GENERAL) FUND			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual (Note 1)	
Revenues and Other Financing Sources:				
Taxes	\$ 50,952,348	\$ 50,952,348	\$ 49,642,450	\$ (1,309,898)
Charges for Services	-	-	27	27
Intergovernmental	-	-	123,551	123,551
Interest	182,079	182,079	742,012	559,933
Miscellaneous	10,021,236	10,021,236	714,507	(9,306,729)
Proceeds from bonds issued	-	-	161,000	161,000
Operating Transfers In	-	-	400,000	400,000
Total Revenues and Other Financing Sources	<u>61,155,663</u>	<u>61,155,663</u>	<u>51,783,547</u>	<u>(9,372,116)</u>
Expenditures and Other Financing Uses:				
Current Operating and Capital Outlay:				
Flood Control	95,021,236	123,302,505	46,060,697	77,241,808
Tax Administration	567,148	579,853	579,853	-
Total Expenditures and Other Financing Uses	<u>95,588,384</u>	<u>123,882,358</u>	<u>46,640,550</u>	<u>77,241,808</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	<u>\$ (34,432,721)</u>	<u>\$ (62,726,695)</u>	<u>\$ 5,142,997</u>	<u>\$ 67,869,692</u>

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
February 28, 2003**

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:

Revenues and Other Sources:	General Fund
Cash (budgetary) basis	\$ 51,783,547
Accrued in 2002, received in 2003	(1,695,151)
Accrued in 2003, to be received in 2004	<u>1,857,465</u>
Revenues on modified accrual (GAAP) basis	<u>51,945,861</u>
 Expenditures and Other Uses:	
Cash (budgetary) basis	46,640,550
Incurred during 2002, paid in 2003	(2,831,872)
Incurred during 2003, payable in 2004	<u>1,334,816</u>
Expenditures on modified accrual (GAAP) basis	<u>45,143,494</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ 6,802,367</u>

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

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF SERVICES AND RATES
For Fiscal Year Ended February 28, 2003
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 Rates Based on 5/8" Meter

Retail Rates Not Applicable

Most prevalent type of meter (if not a 5/8"): _____

		Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	N/A	\$ _____	_____	_____	\$ _____	_____ to _____
WASTEWATER:	N/A	\$ _____	_____	_____	\$ _____	_____ to _____
SURCHARGE:	N/A	\$ _____	_____	_____	\$ _____	_____ to _____

District employs winter averaging for wastewater usage? Yes No .

Total water and wastewater charges per 10,000 gallons usage (including surcharges). \$ _____

3. Retail Service Providers: Number of retail water and/or wastewater connections within the District as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC) as noted:

	Active Connections	Active ESFC	Inactive Connections (ESFC)
Single Family	_____	_____	_____
Multi-Family	_____	_____	_____
Commercial	_____	_____	_____
Other – recreational centers, government & VFD	_____	_____	_____
TOTAL	N/A	N/A	N/A

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF SERVICES AND RATES
For Fiscal Year Ended February 28, 2003
Schedule 1
(Unaudited)**

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

Gallons pumped into system: N/A

Gallons billed to customers: N/A

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

For the most recent full fiscal year, FYE _____ ,:

Debt Service:	Total levy	\$ _____
	Total Collected	\$ _____
	Percentage Collected	_____ %
Operation & Maintenance:	Total levy	\$ _____
	Total Collected	\$ _____
	Percentage Collected	_____ %

Have standby fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property? Yes No .

6. **Anticipated sources of funds to be used for debt service payments in the District's following fiscal year - FY 2003-2004:**

	<u>Amount</u>
a. Debt Service Tax Receipts	\$ 19,693,689
b. Surplus Construction Funds	-
c. Water and/or Wastewater Revenue	-
d. Standby Fees	-
e. Debt Service Fund Balance To Be Used	(1,135,771)
f. Interest Revenues	5,390,085
g. Other – Proceeds From Commercial Paper Issued	-
TOTAL ANTICIPATED FUNDS TO BE USED*	<u>\$ 23,948,003</u>

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
 A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
 SCHEDULE OF SERVICES AND RATES
 For Fiscal Year Ended February 28, 2003
 Schedule 1
 (Unaudited)**

7. 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	
Scabrook		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, 2003
Schedule 2
(Unaudited)

Personnel Expenditures (including benefits)	\$	17,202,245
Professional Fees and Contractual Services		17,232,223
Utilities		383,438
Repairs and Maintenance		2,684,553
Administrative Expenditures		86,613
Capital Outlay		5,531,406
Other Expenditures		2,023,016
Transfer Out		<u> -</u>
 TOTAL EXPENDITURES & TRANSFER OUT	 \$	 <u><u>45,143,494</u></u>

Number of persons employed by the District: 289 Full-Time 4 Part-Time

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF TEMPORARY INVESTMENTS
For The Year Ended February 28, 2003
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, 2003
Schedule 4
(Unaudited)**

TAX RATE FOR ANY OTHER SPECIAL DISTRICT WHICH (A) ENCOMPASSES LESS THAN A COUNTY, (B) PROVIDES WATER, WASTEWATER COLLECTION, DRAINAGE OR ROADS TO PROPERTY IN THE DISTRICT AND TAXES PROPERTY IN THE DISTRICT.

Name of Special District(s)	Service Provided	Tax Rate
	NOT AVAILABLE	

	Total Rate(s) of Special District(s)	0
		=====

TAX RATES FOR ALL OVERLAPPING JURISDICTIONS. Include any taxing entities which overlap 10% or more of the district.

TAXING JURISDICTION	TAX RATE (Per \$100 valuation)
a. County - Harris	0.38814
b. Cities (see Attachment A)	0.0000 - 1.0713
c. School Districts (see Attachment A)	1.4800 - 1.9400
d. Community Colleges (see Attachment A)	0.1055-0.1307
e. Special District(s) not included above:	-
f. Total District (from previous page)	0.04174
Total Overlapping tax rate	2.01538 - 3.57188
	=====

(Continued)

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF TAXES LEVIED AND RECEIVABLE
For The Year Ended February 28, 2003
Schedule 4 - Attachment A
(Unaudited)

Entity	Property Tax Rate	As Of
<u>Cities:</u>		
Baytown	0.7370	9/30/2002
Bellaire	0.4900	9/30/2002
Bunker Hill Village	0.3161	1/20/2003
Deer Park	0.6990	9/30/2002
El Lago	0.3806	1/17/2003
Friendswood	0.6385	9/30/2002
Galena Park	1.0713	9/30/2002
Hedwig Village	0.2141	12/31/2002
Houston	0.6550	6/30/2002
Humble	0.1998	9/30/2002
Jacinto City	0.8993	9/30/2002
Jersey Village	0.6750	9/30/2002
Katy	0.6147	10/1/2002
LaPorte	0.7100	9/30/2002
League City	0.6500	9/30/2002
Missouri City	0.4914	6/30/2002
Morgan's Point	0.3500	10/1/2002
Nassau Bay	0.5980	9/30/2002
Pasadena	0.5670	6/30/2002
Pearland	0.6860	10/1/2002
Seabrook	0.6006	10/1/2002
Shore Acres	0.6907	3/21/2003
South Houston	0.6944	9/30/2002
Southside Place	0.2153	1/13/2003
Spring Valley	0.3830	1/29/2003
Stafford	-	9/30/2002
Taylor Lake Village	0.3849	10/26/2002
Tomball	0.2800	9/30/2002
Webster	0.2400	9/30/2002
West University Place	0.4300	12/31/2002
<u>School Districts:</u>		
Aldine I.S.D.	1.6180	2/28/2003
Alief I.S.D.	1.6750	8/31/2002
Channelview I.S.D.	1.4800	8/31/2002
Clear Creek I.S.D.	1.7400	8/31/2002
Crosby I.S.D.	1.6700	8/31/2002
Cypress-Fairbanks I.S.D.	1.7900	2/28/2003
Dayton I.S.D.	1.5900	1/22/2003
Deer Park I.S.D.	1.8035	2/28/2003
Galena Park I.S.D.	1.7135	8/31/2002
Goose Creek I.S.D.	1.6942	8/31/2002
Houston I.S.D.	1.5800	6/30/2002
Huffman I.S.D.	1.6800	8/31/2002
Humble I.S.D.	1.7400	6/30/2002
Katy I.S.D.	1.9400	8/31/2002
Klein I.S.D.	1.7200	8/31/2002
LaPorte I.S.D.	1.6800	8/31/2002
North Forest I.S.D.	1.7444	12/31/2002
Pasadena I.S.D.	1.6875	8/31/2002
Pearland I.S.D.	1.8372	8/31/2002
Sheldon I.S.D.	1.6330	8/31/2002
Spring I.S.D.	1.7000	8/31/2002
Spring Branch I.S.D.	1.7900	8/31/2002
Tomball I.S.D.	1.6800	8/31/2002
Waller I.S.D.	1.7000	8/31/2002
<u>Community Colleges:</u>		
North Harris Montgomery Community College	0.1055	8/31/2002
San Jacinto Junior College	0.1307	2/28/2003

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF CHANGES IN CAPITAL ASSETS
For The Year Ended February 28, 2003
Schedule 5
(Unaudited)

	Balances at Beginning of Year March 1, 2002	Additions	Deletions	Transfers	Balances at End of Year February 28, 2
GOVERNMENTAL ACTIVITIES:					
Land	\$ 1,137,215,022	\$ 84,686,959	\$ (1,315,124)	\$ -	\$ 1,220,586,8
Construction Work in Progress	27,686,005	25,093,304	-	(8,802,483)	43,976,8
Total Capital Assets not Depreciated	<u>1,164,901,027</u>	<u>109,780,263</u>	<u>(1,315,124)</u>	<u>(8,802,483)</u>	<u>1,264,563,6</u>
Buildings	2,773,138	557,568	-	-	3,330,7
Equipment	8,049,464	794,361	(1,060,254)	-	7,783,5
Flood Control Projects	256,493,523	-	-	8,802,483	265,296,0
	<u>267,316,125</u>	<u>1,351,929</u>	<u>(1,060,254)</u>	<u>8,802,483</u>	<u>276,410,2</u>
Less Accumulated Depreciation For:					
Buildings	(969,447)	(139,880)	-	-	(1,109,3
Equipment	(3,157,783)	(1,889,134)	998,431	-	(4,048,4
Flood Control Projects	(109,017,280)	(8,123,158)	-	-	(117,140,4
	<u>(113,144,510)</u>	<u>(10,152,172)</u>	<u>998,431</u>	<u>-</u>	<u>(122,298,2</u>
Total Capital Assets Being Depreciated, Net	<u>154,171,615</u>	<u>(8,800,243)</u>	<u>(61,823)</u>	<u>8,802,483</u>	<u>154,112,0</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$1,319,072,642</u>	<u>\$100,980,020</u>	<u>\$ (1,376,947)</u>	<u>\$ -</u>	<u>\$1,418,675,7</u>

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF GENERAL LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEAR
For The Year Ended February 28, 2003
Schedule 6
(Unaudited)**

Due During Fiscal Years Ending	<u>Annual Requirements for All Series</u>		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2004	\$ 19,975,000	\$ 3,973,003	\$ 23,948,003
2005	18,250,000	3,262,793	21,512,793
2006	14,685,000	2,368,143	17,053,143
2007	12,460,000	1,651,073	14,111,073
2008	3,975,287	9,447,076	13,422,363
2009	2,928,864	6,900,999	9,829,863
2010	3,502,889	5,609,473	9,112,362
2011	2,968,921	3,740,129	6,709,050
2012	2,569,024	1,832,213	4,401,237
2013	3,615,000	573,875	4,188,875
2014	3,615,000	379,737	3,994,737
2015	2,295,000	185,600	2,480,600
2016	1,250,000	64,063	1,314,063
	<u>\$ 92,089,985</u>	<u>\$ 39,988,177</u>	<u>\$ 132,078,162</u>

(Continued)

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEAR
For The Year Ended February 28, 2003
Schedule 6
(Unaudited)

Due During Fiscal Years Ending	Series 1993		Total
	Principal Due 10/01	Interest Due 04/01, 10/01	
2004	\$ 6,935,000	\$ 2,146,448	\$ 9,081,448
2005	5,950,000	1,827,437	7,777,437
2006	8,590,000	1,547,788	10,137,788
2007	11,470,000	1,135,467	12,605,467
2008	3,975,287	8,963,151	12,938,438
2009	2,928,864	6,417,074	9,345,938
2010	2,417,889	5,125,548	7,543,437
2011	1,893,921	3,310,454	5,204,375
2012	1,509,024	1,456,288	2,965,312
2013	1,250,000	256,251	1,506,251
2014	1,250,000	192,187	1,442,187
2015	1,250,000	128,125	1,378,125
2016	1,250,000	64,063	1,314,063
	<u>\$ 50,669,985</u>	<u>\$ 32,570,281</u>	<u>\$ 83,240,266</u>

(Continued)

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

For The Year Ended February 28, 2003

**Schedule 6
(Unaudited)**

<u>Due During Fiscal Years Ending</u>	<u>Series 2002</u>		<u>Total</u>
	<u>Principal Due 10/01</u>	<u>Interest Due 04/01, 10/01</u>	
2004	\$ 13,040,000	\$ 1,826,555	\$ 14,866,555
2005	12,300,000	1,435,356	13,735,356
2006	6,095,000	820,355	6,915,355
2007	990,000	515,606	1,505,606
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
2016	-	-	-
	<u>\$ 41,420,000</u>	<u>\$ 7,417,896</u>	<u>\$ 48,837,896</u>

(Concluded)

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COMMERCIAL PAPER DEBT SERVICE REQUIREMENTS - BY YEAR
For The Year Ended February 28, 2003
Schedule 7
(Unaudited)

Commercial Paper Series F

<u>Due During Fiscal Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004		\$ 604,365	\$ 604,365
2005	\$ 13,680,857	1,208,728	14,889,585
2006	54,723,428	777,042	55,500,470
2006	<u>27,361,715</u>	<u>129,507</u>	<u>27,491,222</u>
TOTAL	<u>\$ 95,766,000</u>	<u>\$ 2,719,642</u>	<u>\$ 98,485,642</u>

(Concluded)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF CHANGES IN GENERAL LONG-TERM DEBT
For The Year Ended February 28, 2003**

**Schedule 8
(Unaudited)**

	Bond Issues					Total
	Series 1991	Series 1992-A	Series 1992-B	Series 1993	Series 2002	
Interest Rate	6.10 - 6.50	5.13 - 6.50	5.00 - 6.75	4.60 - 5.60	3.00 - 5.50	
Dates Interest Payable	04/01;10/01	04/01;10/01	04/01;10/01	04/01;10/01	04/01;10/01	
Maturity Dates	10/1/2006	10/1/2013	10/1/2014	10/1/2015	10/1/2014	
Bonds Outstanding at March 1, 2002	\$ 32,949,644	\$ 10,520,000	\$ 7,890,000	\$ 57,634,985	\$ -	\$ 108,994,6
Bonds Sold During the Current Year: 2002-2003	-	-	-	-	44,495,000	44,495,0
Retirements During the Current Year: 2002-2003	32,949,644	10,520,000	7,890,000	6,965,000	3,075,000	61,399,6
Bonds Outstanding at February 28, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,669,985</u>	<u>\$ 41,420,000</u>	<u>\$ 92,089,9</u>
Interest Paid During the Current Year - 2002-2003	<u>\$ 14,750,703</u>	<u>\$ 287,985</u>	<u>\$ 218,619</u>	<u>\$ 2,459,873</u>	<u>\$ 687,572</u>	<u>\$ 18,404,7</u>

Paying Agent's	Name	City
Series 1991	Chase Manhattan Bank	New York, New York
Series 1992-A	Chase Manhattan Bank	New York, New York
Series 1992-B	Chase Manhattan Bank	New York, New York
Series 1993	Chase Manhattan Bank	New York, New York
Series 2002	Chase Manhattan Bank	New York, New York

Bond Authorization:	Tax Bonds
Amount Authorized By Voters	\$ 250,000,000
Amount Issued	<u>155,000,000</u>
Remaining To Be Issued	<u>\$ 95,000,000</u>

Debt Service Fund Cash and Investments balances as of February 28, 2003: \$ 23,915,674

Average Annual Debt Service Payment (Principal & Interest) for remaining term of all debt: \$ 10,159,859

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
COMPARATIVE SCHEDULE OF REVENUE AND EXPENDITURES-GENERAL FUND AND DEBT SERVICE FUNDS
For The Year Ended February 28, 2003**

Schedule 9
(Unaudited)

	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
General Fund:										
Revenues:										
Taxes	\$ 49,590,215	\$ 48,240,512	\$ 59,924,526	\$ 67,864,044	\$ 58,587,514	96.9%	94.7%	93.2%	96.0%	96.0%
Charges for Services	27	261,309	255,419	221,380	-	0.0%	0.5%	0.4%	0.3%	0.0%
Intergovernmental	190,416	124	403,777	-	37,293	0.4%	0.0%	0.6%	0.0%	0.1%
Interest	894,054	2,027,238	3,124,596	2,117,955	1,322,575	1.7%	4.0%	4.9%	3.0%	2.5%
Miscellaneous	508,866	432,924	587,726	491,526	877,948	1.0%	0.8%	0.9%	0.7%	1.4%
Total Revenues	\$ 51,183,578	\$ 50,962,107	\$ 64,296,044	\$ 70,694,905	\$ 61,025,330	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditures:										
Current Operating:										
Flood Control	\$ 13,177,778	\$ 44,533,695	\$ 43,459,875	\$ 36,201,146	\$ 34,493,857	25.8%	87.4%	67.6%	51.2%	56.5%
Tax Administration	579,853	738,144	875,413	875,052	800,000	1.1%	1.4%	1.4%	1.2%	1.3%
Capital Outlay	31,385,863	-	-	-	-	61.3%	0.0%	0.0%	0.0%	0.0%
Total Expenditures	\$ 45,143,494	\$ 45,271,839	\$ 44,335,288	\$ 37,076,198	\$ 35,293,857	88.2%	88.8%	69.0%	52.4%	57.8%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 6,040,084	\$ 5,690,268	\$ 19,960,756	\$ 33,618,707	\$ 25,731,473	11.8%	11.2%	31.0%	47.6%	42.2%
Debt Service Fund:										
Revenues:										
Taxes	\$ 23,596,948	\$ 31,947,788	\$ 33,224,416	\$ 43,074,495	\$ 44,841,381	98.2%	96.8%	93.6%	96.5%	96.8%
Interest	442,964	1,048,526	2,253,466	1,554,519	1,483,332	1.8%	3.2%	6.4%	3.5%	3.2%
Miscellaneous	200	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Total Revenues	\$ 24,040,112	\$ 32,996,314	\$ 35,477,882	\$ 44,629,014	\$ 46,324,713	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditures:										
Debt Service										
Principal Retirement	\$ 15,979,644	\$ 20,244,282	\$ 22,170,242	\$ 22,552,524	\$ 31,849,968	66.5%	61.3%	62.5%	50.5%	68.8%
Interest and Fiscal Charges	18,635,680	17,148,324	22,411,765	23,177,419	13,179,884	77.5%	52.0%	63.2%	52.0%	28.4%
Total Expenditures	\$ 34,615,324	\$ 37,392,606	\$ 44,582,007	\$ 45,729,943	\$ 45,029,852	144.0%	113.3%	125.7%	102.5%	97.2%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (10,575,212)	\$ (4,396,292)	\$ (9,104,125)	\$ (1,100,929)	\$ 1,294,861	-44.0%	-13.3%	-25.7%	-2.5%	2.8%

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

For The Year Ended February 28, 2003

**Schedule 10
(Unaudited)**

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Name</u>	<u>Type of Corporation Stock/Mutual</u>	<u>Policy Clause: Co-Insurance</u>
Crime: (\$5,000 deductible)	None - effective 2/28/2003			
Employee Dishonesty	\$3,000,000	Zurich Ins. Co.	Stock	No
Forgery/Alteration	\$3,000,000	Zurich Ins. Co.	Stock	No
Theft/Disappearance	\$3,000,000	Zurich Ins. Co.	Stock	No
Robbery/Safe Burglary	\$3,000,000	Zurich Ins. Co.	Stock	No
Computer Fraud	\$3,000,000	Zurich Ins. Co.	Stock	No
Counterfeit Currency	\$3,000,000	Zurich Ins. Co.	Stock	No
Credit Card Forgery	\$3,000,000	Zurich Ins. Co.	Stock	No
Liability (General): -0- deduct	Self insured; Section 101.021-Texas Civil Practice & Remedies Code			
Property (per occurrence)	\$100,000			
Injury (per person)	\$100,000			
Injury (per occurrence)	\$300,000			
Liability (Auto): -0- deductible	Self insured; Section 101.021-Texas Civil Practice & Remedies Code			
Property (per occurrence)	\$100,000			
Injury (per person)	\$100,000			
Injury (per occurrence)	\$300,000			
Property: (\$75,000 deductible)	Blanket catastrophic policy for District			
	\$6,200,000	Coregis Ins. Co.	Stock	No

**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, 2003**

**Schedule 11
(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, 2003	Expense Reimbursements Feb 28, 2003	Title at Year End	Resident of District
Commissioners' Court acts as Board of Director for District					
Judge Robert Eckels 1001 Preston, Suite 911 Houston Texas 77002	(Elected) 01/03 - 12/06	N/A	N/A	County Judge	Yes
El Franco Lee 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/01 - 12/04	N/A	N/A	Commissioner	Yes
Sylvia R. Garcia 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/03 - 12/06	N/A	N/A	Commissioner	Yes
Steve Radack 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/01 - 12/04	N/A	N/A	Commissioner	Yes
Jerry Eversole 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/03 - 12/06	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, 2003**

**Schedule 11
(Unaudited)**

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees Feb 28, 2003	Expense Reimbursements Feb 28, 2003	Title at Year End	Resident of District
Michael Stafford 1019 Congress 15th Fl Houston Texas 77002	(Elected) 03/01 - 12/04	N/A	N/A	County Attorney	Yes
Paul Bettencourt 1001 Preston, 1th Fl Houston Texas 77002	(Elected) 01/01 - 12/04	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