

**Deloitte &
Touche**



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

**General Purpose Financial Statements and Supplemental
Schedule as of February 28, 1994 and for the Fiscal Year
Then Ended and Independent Auditor's Report**

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

GENERAL PURPOSE FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 28, 1994

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HARRIS COUNTY AUDITOR

FINANCIAL STATEMENT RESPONSIBILITY

The Harris County Auditor is responsible for the preparation of the accompanying financial statements and supplemental information for the fiscal year ended February 28, 1994 of the Harris County Flood Control District (the "District"), a component unit of Harris County, Texas. The financial statements have been prepared in accordance with generally accepted accounting principles. The County Auditor is responsible for the integrity and objectivity of the data presented in the statements and schedules including the making of informed judgements and estimates of the expected effects of events and transactions that are not concluded by year end.

The management of the District is responsible for maintaining an internal control system designed to insure that the assets of the District are protected from loss or misuse and to provide reasonable assurance as to the integrity and reliability of the financial statements. The system of internal control provides for segregation of duties and is documented by written policies and procedures. The Harris County Auditor's Office also has an internal audit function to review the operations of the District for effective internal control and compliance with statutory requirements. To the best of our knowledge, management has considered the Harris County Auditor internal auditor's recommendations concerning the District's system of internal control and has taken appropriate action to address these recommendations. District management believes that the District's internal control system is adequate to accomplish the objectives discussed above as of February 28, 1994.

The District's financial statements known as the general purpose financial statements have been audited by Deloitte & Touche, independent certified public accountants who were engaged by the Harris County Commissioners Court for the purpose of expressing an opinion on those financial statements. District and County management has made available to their independent auditors direct access to District and County officers and employees and all the District's financial records and related data as well as the minutes of the Commissioners Court meetings. Harris County and the District believes that all representations made to Deloitte & Touche were valid and appropriate.

A handwritten signature in black ink, reading "Tommy J. Tompkins". The signature is stylized and cursive.

Tommy J. Tompkins
County Auditor

June 10, 1994

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INDEPENDENT AUDITORS' REPORT

County Judge Jon Lindsay
and Members of Commissioners Court of
Harris County, Texas:

We have audited the accompanying general purpose financial statements of Harris County Flood Control District (the "District"), a component unit of Harris County, Texas, as of February 28, 1994, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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, such general purpose financial statements present fairly, in all material respects, the financial position of the District at February 28, 1994 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

June 10, 1994

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

February 28, 1994

ASSETS AND OTHER DEBITS	Governmental Fund Types						Total	
	Operations and Maintenance (General)	Debt Service	Capital Projects	Fiduciary Fund Type Agency	Account Groups		(Memorandum Only)	
					General Fixed Assets	General Long-Term Debt	1994	1993
Cash and Investments (Note 2):								
Cash and Cash Equivalents	\$18,164,878	\$28,231,685	\$21,692,454	\$ -	\$ -	\$ -	\$68,089,017	\$64,701,762
Investments	-	9,519,935	36,817,427	-	-	-	46,337,362	46,934,198
Receivables:								
Taxes, Net (Note 3)	2,024,698	2,460,872	-	-	-	-	4,485,570	4,257,436
Accounts	142	-	90,923	-	-	-	91,065	91,065
Accrued Interest	64,189	137,825	247,720	-	-	-	449,734	391,974
Taxes Due From Tax Assessor and Collector	180,381	302,769	-	-	-	-	483,150	1,215,853
Due From Other Funds	60,848	-	-	-	-	-	60,848	1,875,815
Travel Advances	880	-	-	-	-	-	880	880
Deferred Compensation Plan Assets (Note 8)	-	-	-	724,746	-	-	724,746	622,758
Land (Note 4)	-	-	-	-	1,781,321	-	1,781,321	1,781,321
Buildings (Note 4)	-	-	-	-	5,059,730	-	5,059,730	5,059,730
Improvements Other Than Buildings (Note 4)	-	-	-	-	1,200,667	-	1,200,667	1,200,667
Equipment (Note 4)	-	-	-	-	14,263,285	-	14,263,285	15,413,315
Flood Control Projects (Note 4)	-	-	-	-	725,176,405	-	725,176,405	690,247,364
Amount Available in Debt Service Funds For:								
Debt Service	-	-	-	-	-	37,546,960	37,546,960	34,317,665
Arbitrage Rebate Liability	-	-	-	-	-	645,254	645,254	831,006
Amount to be Provided For:								
Retirement of General Long-Term Debt	-	-	-	-	-	308,996,114	308,996,114	292,019,418
Compensatory Time Payable	-	-	-	-	-	182,213	182,213	179,643
TOTAL ASSETS AND OTHER DEBITS	\$20,496,016	\$40,653,086	\$58,848,524	\$724,746	\$747,481,408	\$347,370,541	\$1,215,574,321	\$1,161,141,870

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS**

February 28, 1994

<u>LIABILITIES, EQUITY AND OTHER CREDITS</u>	<u>Governmental Fund Types</u>						<u>Total</u>	
	<u>Operations and Maintenance (General)</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Fiduciary Fund Type Agency</u>	<u>Account Groups</u>		<u>(Memorandum Only)</u>	
					<u>General Fixed Assets</u>	<u>General Long- Term Debt</u>	<u>1994</u>	<u>1993</u>
Liabilities:								
Vouchers Payable	\$1,731,642	\$ -	\$3,442,402	\$ -	\$ -	\$ -	\$5,174,044	\$4,266,749
Accrued Payroll and Compensated Absences	787,151	-	-	-	-	-	787,151	742,087
Deferred Compensation Due Employees (Note 8)	-	-	-	724,746	-	-	724,746	622,758
Customer Deposits	-	-	90,479	-	-	-	90,479	98,818
Due to Other Funds	60,848	-	-	-	-	-	60,848	1,875,815
Deferred Revenues	2,024,840	2,460,872	-	-	-	-	4,485,712	4,272,165
Arbitrage Rebate Payable (Note 5)	-	-	-	-	-	645,254	645,254	831,006
Bonds Payable (Note 5)	-	-	-	-	-	346,543,074	346,543,074	326,337,083
Compensatory Time Payable (Note 5)	-	-	-	-	-	182,213	182,213	179,643
Total Liabilities	<u>4,604,481</u>	<u>2,460,872</u>	<u>3,532,881</u>	<u>724,746</u>	<u>-</u>	<u>347,370,541</u>	<u>358,693,521</u>	<u>339,226,124</u>
Equity and Other Credits:								
Investment in General Fixed Assets	-	-	-	-	747,481,408	-	747,481,408	713,702,397
Fund Balances:								
Reserved For:								
Encumbrances	11,646,019	-	23,327,635	-	-	-	34,973,654	40,151,144
Debt Service	-	37,546,960	-	-	-	-	37,546,960	34,317,665
Arbitrage Rebate	-	645,254	-	-	-	-	645,254	831,006
Travel Advances	880	-	-	-	-	-	880	880
Unreserved:								
Designated for Capital Projects	-	-	31,988,008	-	-	-	31,988,008	24,488,366
Undesignated	4,244,636	-	-	-	-	-	4,244,636	8,424,288
Total Equity and Other Credits	<u>15,891,535</u>	<u>38,192,214</u>	<u>55,315,643</u>	<u>-</u>	<u>747,481,408</u>	<u>-</u>	<u>856,880,800</u>	<u>821,915,746</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	<u>\$20,496,016</u>	<u>\$40,653,086</u>	<u>\$58,848,524</u>	<u>\$724,746</u>	<u>\$747,481,408</u>	<u>\$347,370,541</u>	<u>\$1,215,574,321</u>	<u>\$1,161,141,870</u>

See notes to the financial statements.

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES

For The Year Ended February 28, 1994
 With Comparative Totals
 For The Year Ended February 28, 1993

	Operations and Maintenance (General)	Debt Service	Capital Projects	Total	
				(Memorandum Only)	
				1994	1993
Revenues:					
Taxes	\$27,644,449	\$34,508,882	\$ -	\$62,153,331	\$61,874,422
Intergovernmental	-	-	2,000,000	2,000,000	998
Interest	410,973	827,297	1,835,419	3,073,689	3,448,282
Miscellaneous	494,945	630,004	3,359,934	4,484,883	3,329,412
Total Revenues	<u>28,550,367</u>	<u>35,966,183</u>	<u>7,195,353</u>	<u>71,711,903</u>	<u>68,653,114</u>
Expenditures:					
Current Operating:					
Flood Control	32,536,285	-	202,508	32,738,793	27,124,627
Tax Administration	959,747	-	-	959,747	889,653
Capital Outlay	-	-	26,853,817	26,853,817	33,329,047
Debt Service (Note 5):					
Principal Retirement	-	16,505,000	-	16,505,000	19,630,000
Interest and Fiscal Charges	-	18,210,043	-	18,210,043	17,491,748
Bond Issuance Costs	-	905,997	-	905,997	-
Total Expenditures	<u>33,496,032</u>	<u>35,621,040</u>	<u>27,056,325</u>	<u>96,173,397</u>	<u>98,465,075</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,945,665)</u>	<u>345,143</u>	<u>(19,860,972)</u>	<u>(24,461,494)</u>	<u>(29,811,961)</u>
Other Financing Sources (Uses):					
Operating Transfers In	1,136	1,792,403	400	1,793,939	1,863,607
Operating Transfers Out	(1,136)	-	(1,792,803)	(1,793,939)	(1,863,607)
Proceeds From Sale of Bonds (Note 5)	-	77,123,093	24,741,540	101,864,633	25,000,000
Deposit with Trustee (Note 5)	-	(76,217,096)	-	(76,217,096)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,698,400</u>	<u>22,949,137</u>	<u>25,647,537</u>	<u>25,000,000</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(4,945,665)</u>	<u>3,043,543</u>	<u>3,088,165</u>	<u>1,186,043</u>	<u>(4,811,961)</u>
Fund Balances, Beginning	20,837,200	35,148,671	52,227,478	108,213,349	113,025,310
Residual Equity Transfers In	1,536	-	-	1,536	-
Residual Equity Transfers Out	(1,536)	-	-	(1,536)	-
Fund Balances, Ending	<u>\$15,891,535</u>	<u>\$38,192,214</u>	<u>\$55,315,643</u>	<u>\$109,399,392</u>	<u>\$108,213,349</u>

See notes to the financial statements.

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

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS
OPERATIONS AND MAINTENANCE (GENERAL) FUND**

For The Year Ended February 28, 1994

	Budget	Actual (Note 1)	Over (Under) Budget
Revenues:			
Taxes	\$23,819,994	\$27,944,245	\$4,124,251
Interest	921,843	427,445	(494,398)
Miscellaneous	76,850	386,618	309,768
Total Revenues	24,818,687	28,758,308	3,939,621
Expenditures:			
Current Operating and Capital Outlay:			
Flood Control	47,779,137	32,931,028	(14,848,109)
Tax Administration	1,080,077	959,747	(120,330)
Total Expenditures	48,859,214	33,890,775	(14,968,439)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$24,040,527)	(\$5,132,467)	\$18,908,060

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1994**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Harris County Flood Control District (the "District") have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to government 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 exercises oversight responsibility have been incorporated to form the reporting entity. This report includes the financial statements of the funds and account groups 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 Governmental Accounting Standards Board Statement 14, "The Reporting Entity." Oversight responsibility was determined by financial interdependency, selection of governing authority, designation of management, accountability for fiscal matters and ability to significantly influence operations. In addition to oversight responsibility, other factors that were considered include scope of public service and special financing relationships.

Based upon the application of these criteria, the Harris County Flood Control Water Supply Corporation ("Water Supply Corporation") is included in the District's financial statements. The Water Supply Corporation was formed by Harris County Commissioners Court to assist the District in financing regional flood control improvements.

B. BASIS OF PRESENTATION

The accounts of the District are organized on the basis of funds and account groups 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.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1994**

Funds are classified into three categories; Governmental, Proprietary and Fiduciary. Each category, in turn, is divided into separate fund types. The following fund types and account groups are used by the District:

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 Funds - used to account for payment of principal and interest on the District's property tax bonds which are recorded in the General Long-Term Debt Account Group.

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

FIDUCIARY FUNDS

Agency Funds - used to account for assets which are held by the District in the capacity of agent.

General Fixed Assets Account Group - used to account for tangible general government assets having a useful life longer than a year and having a monetary value large enough to warrant maintaining related custodial records.

General Long-Term Debt Account Group - used to record and account for the outstanding bonds, certificates of participation, compensatory time payable, and arbitrage rebate payable.

C. **BASIS OF ACCOUNTING**

Basis of accounting refers to the time at which revenues and expenditures are recognized and reported in the financial statements. All Governmental Funds, Expendable Trust Funds and Agency Funds use a current financial resource measurement focus utilizing a modified accrual basis of accounting. Under the modified accrual basis of accounting, certain revenues are recorded when susceptible to accrual; both measurable and available. Available means collectible within the current period or as soon thereafter to be available to pay liabilities of the current periods. All other revenues are recognized when cash is received. Expenditures, if measurable, are generally recognized on the accrual basis of accounting. Exceptions to this general rule include prepaid items and compensated absences which are recognized as expenditures when paid, and principal and interest on long-term debt which are recognized as expenditures when due.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1994**

D. BUDGETS

Annual appropriation budgets are adopted for the Flood Control Operations and Maintenance (General) Fund. Commissioners Court appoints the County Budget Officer, who prepares the proposed budget using revenue estimates furnished by the County Auditor. Harris County adheres to the following timetable for consideration and adoption of the annual budget for the Flood Control Operations and Maintenance (General) Fund:

- Departmental annual budget requests are submitted by the Department or Agency Head to the County Budget Officer during the third quarter of the fiscal year for the upcoming fiscal year to begin March 1.
- The County Auditor must prepare an estimate of available resources for the upcoming fiscal year. 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 the 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.
- The Commissioners Court must adopt an annual operating budget by a majority vote of the Commissioners Court before April 1. The adopted budget must be balanced; that is, available resources must be sufficient to support annual appropriations.
- The department is the legal level of budgetary control. Commissioners Court may transfer surplus appropriations during a fiscal year from one department to another within the same fund.
- The County Budget Officer is authorized to transfer General Fund Salary Surplus appropriations to a Reserve appropriation within the General Fund.
- Transfers cannot exceed the original appropriation level adopted for the fund during the fiscal year.
- Appropriations lapse at year end.
- Budgets are prepared on a cash basis (budget basis) which differs from generally accepted accounting principles (GAAP) basis.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1994**

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

	General Fund
Revenues:	
Cash basis (budget basis)	\$28,758,308
Accrued in 1993 received in 1994	(511,823)
Accrued in 1994 to be received in 1995	303,882
Revenues on modified accrual basis (GAAP basis)	<u>28,550,367</u>
Expenditures:	
Cash basis (budget basis)	33,890,775
Incurred during 1993 paid in 1994	(1,083,024)
Incurred during 1994 payable in 1995	688,281
Expenditures on modified accrual basis (GAAP basis)	<u>33,496,032</u>
Excess (deficiency) of revenues over (under) expenditures on modified accrual basis (GAAP basis)	<u>\$(4,945,665)</u>

E. ENCUMBRANCES

Encumbrances are recorded during the year upon execution of purchase orders, contracts, or other appropriate documents in order to reserve that portion of the applicable appropriation. Encumbrances open at year-end are reported as reservations of fund balance. Such encumbrances are reappropriated in the next budget year.

F. CASH AND INVESTMENTS

Cash and Cash Equivalents include amounts in demand deposits as well as short-term investments. Investments are stated at cost or amortized cost, except for investments in the Deferred Compensation Agency funds which are reported at market value.

G. 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. Nonrecurring transfers of equity between funds are treated as residual equity transfers and are reported as additions or deductions to fund balance or retained earnings.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1994**

H. FIXED ASSETS

All fixed 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 market value on the date donated.

The costs of acquiring or constructing fixed assets are recorded as expenditures in the governmental funds. On November 16, 1993 Commissioners Court approved an increase in the equipment capitalization amount from \$200 to \$1,000. An entry was made during Fiscal Year 1994 to write-off \$780,048 of equipment from General Fixed Assets for items valued under the new capitalization amount. Effective December 1, 1994, expenditures in excess of \$1,000 are capitalized in the General Fixed Assets Account Group. Public domain fixed assets consisting of improvements other than buildings, roads, bridges, and related rights-of-way also are included in the General Fixed Assets Account Group. No depreciation has been provided or net interest cost capitalized on general fixed assets.

I. 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 in the General Long-Term Debt Account Group.

Effective January 2, 1993, 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 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 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.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1994**

As of February 28, 1994, \$531,760 and \$182,213 has been recorded in the Governmental Funds and General Long-Term Debt Account Group, respectively, for future compensated absences.

J. TOTAL COLUMNS ON COMBINED STATEMENTS (MEMORANDUM ONLY)

Total columns on the combined statements are captioned "*Memorandum Only*" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation since interfund eliminations have not been made in the aggregation of this data.

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, 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: At February 28, 1994, the carrying amount of the District's demand and time deposits is \$40,883,487. The \$42,230,221 bank balance was covered by federal depository insurance or collateralized with securities held by the District's agent in the District's name.

Investments: 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.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1994**

Shown below are the District's investments by risk category as of February 28, 1994.

	Categories			Carrying Amount	Market Value
	1	2	3		
Investments Included in Cash and Cash Equivalents:					
Commercial Paper	\$ 7,186,675	\$ -	\$ -	\$ 7,186,675	\$ 7,207,977
Investments:					
U.S. Government Securities	46,204,993	-	-	46,204,993	46,200,973
Commercial Paper	<u>20,094,882</u>	<u>-</u>	<u>-</u>	<u>20,094,882</u>	<u>20,155,253</u>
Subtotal	<u>\$73,486,550</u>	<u>\$ -</u>	<u>\$ -</u>	73,486,550	73,564,203
Investments in Deferred Compensation					
Assets - Money Market Mutual Funds				724,746	724,746
Money Market Mutual Funds				<u>56,342</u>	<u>56,342</u>
TOTAL INVESTMENTS				<u>\$74,267,638</u>	<u>\$74,345,291</u>

3. PROPERTY TAXES

Property taxes for Harris County and the Harris County Flood Control District are levied each October 1 on the assessed value as of the preceding 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 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, Harris County Flood Control District, Harris County Hospital District and Port of Houston Authority - Debt Tax Rate, only.

The Flood Control 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 1993 tax year, per \$100 of taxable valuation:

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	<u>Operations and Maintenance</u>	<u>Debt Service</u>	<u>Total</u>
Flood Control District	.02470	.03095	.05565

Property tax receivables at February 28, 1994 are reported net of an allowance for uncollectible taxes of \$14,384,460.

4. GENERAL FIXED ASSETS

General fixed assets transactions are summarized as follows:

	<u>Balance March 1, 1993</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance February 28, 1994</u>
Land	\$ 1,781,321	\$ -	\$ -	\$ 1,781,321
Buildings	5,059,730	-	-	5,059,730
Improvements Other Than Buildings	1,200,667	-	-	1,200,667
Equipment	15,413,315	2,440,911	3,590,941	14,263,285
Flood Control Projects	<u>690,247,364</u>	<u>34,929,041</u>	<u>-</u>	<u>725,176,405</u>
TOTAL	<u>\$713,702,397</u>	<u>\$37,369,952</u>	<u>\$3,590,941</u>	<u>\$747,481,408</u>

General Fixed Asset deductions do not include any allowance for accumulated depreciation.

5. GENERAL 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.

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B. BONDED DEBT - CHANGES IN FY 94

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

	Balance March 1, 1993	Increase	Decrease	Balance February 28, 1994
Total Bonds Payable - Principal	\$305,236,660	\$94,464,985	\$85,970,000	\$313,731,645
Unamortized Premium, Series 1991	15,808,566	-	552,367	15,256,199
Unamortized Premium, Series 1993	-	7,294,648	-	7,294,648
Accretion of Discount-Compound Interest				
Bonds, Series 1991	5,291,857	4,863,867	-	10,155,724
Bonds, Series 1993	-	104,858	-	104,858
Total Bonds Payable	326,337,083	106,728,358	86,522,367	346,543,074
Compensatory Time Payable	179,643	2,570	-	182,213
Arbitrage Rebate Payable	831,006	-	185,752	645,254
Total General Long-Term Debt	<u>\$327,347,732</u>	<u>\$106,730,928</u>	<u>\$86,708,119</u>	<u>\$347,370,541</u>

C. OUTSTANDING BONDED DEBT - FEBRUARY 28, 1994

	Interest Rates(%)	Date Series		Balance February 28, 1994
		Issued	Matures	
Refunding Series 1985	8.50- 8.70	1985	1995	\$ 31,790,000
Series 1987A	8.50- 7.40	1987	1997	9,000,000
Series 1988A	8.50- 7.80	1988	1999	6,000,000
Series 1989A	8.90- 7.00	1989	1999	5,000,000
Series 1989B	8.00- 6.75	1989	2001	8,000,000
Series 1989C	8.50- 6.90	1989	1999	6,000,000
Refunding Series 1991	*	1991	2006	117,941,660
Series 1992A	7.125- 5.125	1992	2013	19,740,000
Series 1992B	7.00- 5.00	1992	2014	15,795,000
Refunding Series 1993A	*	1993	2015	<u>94,464,985</u>
TOTAL				<u>\$313,731,645</u>

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D. DEBT SERVICE REQUIREMENTS TO MATURITY FOR THE BONDS ARE SUMMARIZED AS FOLLOWS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
1995	\$ 19,145,000	\$ 15,720,858	\$ 34,865,858
1996	25,935,000	14,439,400	40,374,400
1997	32,340,000	12,322,325	44,662,325
1998	30,500,000	10,398,135	40,898,135
1999	31,849,968	13,179,883	45,029,851
2000-2004	100,066,692	86,413,093	186,479,785
2005-2009	52,554,151	24,313,037	76,867,188
2010-2014	17,525,834	12,272,135	29,797,969
2015-2016	<u>3,815,000</u>	<u>257,938</u>	<u>4,072,938</u>
TOTAL	<u>\$313,731,645</u>	<u>\$189,316,804</u>	<u>\$503,048,449</u>

E. UNISSUED AUTHORIZED BONDS

At February 28, 1994, the District has voter authorization to issue \$95,000,000 of additional property tax bonds.

F. DEFEASANCE OF DEBT

The District has 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. At February 28, 1994, the outstanding principal balance of these defeased Flood Control property tax bonds was \$268,255,000.

G. ADVANCE REFUNDING

On December 7, 1993, the District issued \$94,464,984.70 Flood Control Improvement and Refunding Bonds. These bonds were issued to advance refund \$69,465,000 in Flood Control Bonds and to provide funds for flood control improvements.

The net proceeds of \$76,216,256, after provision for payment of \$24,600,887.50 in Flood Control Improvement Funds and \$1,641,949 in issuance costs and other deposits, were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The refunded bonds are considered defeased and the liability for these bonds has been removed from the General Long-Term Debt Account Group.

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The District issued the refunding bonds to achieve cash savings of \$2,077,956 for the Flood Control Refunding Bonds. The economic gain resulting from the transaction totals \$3,641,841 for the Flood Control Bonds.

6. RETIREMENT PLAN

PLAN DESCRIPTION

All officials and permanent employees ("employees") of the District are members of the Texas County and District Retirement System ("TCDRS"), a statewide agent, multiple-employer public employee retirement system that administers a joint contributory, defined contribution pension plan established by State legislation. Under the plan, both the District and the employee are required to contribute an amount equal to 7% of the employees' monthly earnings. Eligible employees are required to participate in the plan.

The District's contribution for each employee, including interest allocated to the employees' account, is fully vested after 10 years' continuous service. Forfeited District contributions and related interest are allocated to the remaining plan participants pending vesting.

Benefit amounts are determined by the sum of the employees' contributions to the plan, with interest, and employer-financed monetary credits, with interest. The level of these monetary credits is adopted by the District conditioned by the actuarial constraints imposed by statute that the resulting benefits can be expected to be adequately financed by the commitment of the District to contribute the same amount as the member employees. The District's current benefit plan provides for employer-financed monetary credits for service since the plan began of 220% of the employees' accumulated contributions, and for employer-financed monetary credits for service before the plan began of 160% of a theoretical amount equal to twice what would have been contributed by the employee, with interest, prior to establishment of the plan. At retirement, the benefit is calculated as if the sum of the employees' accumulated contributions and employer financed monetary credits were used to purchase an annuity.

CONTRIBUTION REQUIREMENTS

The contribution rate of the District is 7% of the employee members' earnings. This rate, which is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act, is a fixed percent equal to the contribution rate payable by the employee member.

The District's total payroll for fiscal year 1994 was \$11,060,379 of which \$10,973,076 was covered by the plan. Employer and employee contributions were made as required and each totaled \$768,115 for the year.

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FUNDING STATUS

Although the substance of the plan is not to provide a defined benefit, additional disclosure (similar to that of a defined contribution plan) is appropriate due to the nontraditional existence of an unfunded pension benefit obligation and employer-financed monetary credits in excess of 100% of the employees' personal contributions. TCDRS's actuary determined that the District's 7% contribution includes the normal cost of 5.21% to fund the currently accruing monetary credits while the remaining portion, 1.79%, is available to amortize any unfunded pension benefit obligation which may arise in the future. The plan had an initial unfunded pension benefit obligation due to the monetary credits granted by Commissioners Court for services rendered before the plan began and can have additions to the unfunded pension benefit obligation through the periodic adoption or increases in benefits and benefits credits. The rate available to amortize any unfunded pension benefit obligation may, however, vary slightly from year to year, since it is determined as the County contribution rate (7%) minus the normal cost contribution rate (recalculated annually).

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required for defined benefit plans, except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. Significant actuarial assumptions used in determining the pension benefit obligation include a rate of return on the investment of present and future assets of 7% for employee contributions and 9% for employer contributions compounded annually. The calculations were made as part of the annual actuarial valuation as of December 31, 1992. The actuarial valuation as of December 31, 1993 was not available at the time this report was prepared. Market value of assets is not determined separately for each plan, but the market value of assets for TCDRS as a whole was 110.6% of book value as of December 31, 1992.

The pension benefit obligation for the Harris County reporting entity (which includes both the Harris County and Harris County Flood Control legal entities) at December 31, 1992 includes the following:

Pension Benefit Obligation:	
Annuitants:	
Currently receiving benefits	\$ 55,174,238
Terminated employees	32,469,537
Members:	
Accumulated employee contributions including allocated investment earnings	219,795,220
Employer-financed vested	196,373,595
Employer-financed nonvested	<u>50,764,767</u>
Total	554,577,357
Net Assets Available for Benefits, at Book Value	<u>574,674,285</u>
Assets in Excess of Pension Benefit Obligation	<u>\$ 20,096,928</u>

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The funded ratio, that portion of the pension benefit obligation that is fully funded, is 103.6% for the County. A funded ratio of 100% or more indicates that the pension benefit obligation is fully funded and the plan has no amortization period.

TREND INFORMATION

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Historical trend information is available in a separately issued TCDRS report. The following schedule illustrates the trend information for plan years ending December 31, 1990 through December 31, 1992.

<u>Plan Year</u>	<u>Net Assets Available for Benefits as a Percentage of Pension Benefit Obligation</u>	<u>Unfunded (Assets in Excess of) Pension Benefit Obligation as a Percentage of Covered Payroll</u>	<u>Employer Contributions as a Percentage of Annual Covered Payroll</u>
1990	101.9 %	(3.03)%	7%
1991	103.19%	(5.38)%	7%
1992	103.6 %	(6.17)%	7%

7. 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 10 years of service with the District and upon reaching age 60, or after 30 years of service. The District pays 100% of the cost of medical plan and life insurance coverage for retirees. The District recognizes expenditures for retirement benefits as incurred, which during fiscal year 1994 totaled \$372,607. Presently, 96 retirees qualified for retirement benefits.

8. DEFERRED COMPENSATION PLAN

The District offers all of its full-time employees a deferred compensation plan that permits them to defer a portion of their current salary until future years. The deferred compensation plan is established under Section 457 of the Internal Revenue Code. The individual assets in the plan are not available to the employees until termination, retirement, death or unforeseeable emergency.

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The District funds all amounts of compensation deferred under the plan through investments in fixed and variable rate annuity contracts underwritten by Aetna Casualty and Life Insurance Company and the PEBSICO Securities Corporation. Such investments and all related earnings thereon are solely the property of the District subject to the claims of its general creditors. Participants' rights under the plan are considered those of a general creditor and are equal to the fair market value of the participants' deferred account. To date, these plan assets have only been used to pay deferred compensation amounts to employees. The District is not responsible for losses under the plan but does have the duty of exercising due care for plan assets as expected of an ordinary prudent investor. The District believes that it is unlikely it will use the assets to satisfy the claims of general creditors in the future.

Investments are managed by the plan's trustee under one of six investment options, or a combination thereof. The choice of the investment option(s) is made solely by the participants.

9. COMMITMENTS AND CONTINGENT LIABILITIES

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.

10. SUBSEQUENT EVENT

On June 14, 1994, the Commissioners Court agreed to a \$300,000 settlement in the case of Durham versus Harris County Flood Control District. This settlement will be recorded as an expenditure during fiscal year 1994-1995.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

County Judge Jon Lindsay
and Members of Commissioners Court of
Harris County Texas:

Our audit of the general purpose financial statements of Harris County Flood Control District (the "District") was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements. These schedules are the responsibility of the management of the District. Such schedules have been subjected to the auditing procedures applied in our audit of the general purpose financial statements, and, in our opinion, are fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

We have also previously audited, in accordance with generally accepted auditing standards, the general purpose financial statements of the District as of February 28, 1993, February 29, 1992, February 28, 1991 and February 28, 1990 and for each of the years then ended (which financial statements are not presented herein); and we expressed unqualified opinions on those financial statements.

June 10, 1994

**HARRIS COUNTY FLOOD CONTROL DISTRICT
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**OPERATIONS AND MAINTENANCE (GENERAL) FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

For Each Of The Five Years In The Period Ended February 28, 1994

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Revenues:					
Taxes	\$25,931,099	\$26,600,279	\$28,831,725	\$27,549,694	\$27,644,449
Intergovernmental	161,257	345,440	107,938	998	-
Interest	950,465	1,350,725	825,110	878,682	410,973
Miscellaneous	58,903	354,333	578,550	1,882,393	494,945
Total Revenues	<u>27,101,724</u>	<u>28,650,777</u>	<u>30,343,323</u>	<u>30,311,767</u>	<u>28,550,367</u>
Expenditures:					
Current Operating:					
Flood Control	25,903,136	25,881,302	23,771,339	26,985,232	32,536,285
Tax Administration	811,328	926,996	1,026,695	889,653	959,747
Total Expenditures	<u>26,714,464</u>	<u>26,808,298</u>	<u>24,798,034</u>	<u>27,874,885</u>	<u>33,496,032</u>
Excess Revenues Over (Under) Expenditures	<u>387,260</u>	<u>1,842,479</u>	<u>5,545,289</u>	<u>2,436,882</u>	<u>(4,945,665)</u>
Other Financing Sources (Uses):					
Operating Transfers In	-	591,734	43,475	-	1,136
Operating Transfers Out	(1,793,525)	-	(2,933,788)	-	(1,136)
Total Other Financing Sources (Uses)	<u>(1,793,525)</u>	<u>591,734</u>	<u>(2,890,313)</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(1,406,265)</u>	<u>2,434,213</u>	<u>2,654,976</u>	<u>2,436,882</u>	<u>(4,945,665)</u>
Fund Balances, Beginning	14,717,394	13,311,129	15,745,342	18,400,318	20,837,200
Residual Equity Transfers In	-	-	-	-	1,536
Residual Equity Transfers Out	-	-	-	-	(1,536)
Fund Balances, Ending	<u>\$13,311,129</u>	<u>\$15,745,342</u>	<u>\$18,400,318</u>	<u>\$20,837,200</u>	<u>\$15,891,535</u>