

**Deloitte &
Touche LLP**



**Harris County Flood Control District
(Component Unit of Harris County, Texas)**

**General Purpose Financial Statements and
Supplemental Schedule as of February 28, 1998**

**Office of
Tommy J. Tompkins, C.P.A.
County Auditor
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Houston, Texas 77002**

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

GENERAL PURPOSE FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 28 1998

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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, 1998, 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 judgments 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 ensure 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, 1998.

The District's financial statements known as *the General Purpose Financial Statements* have been audited by Deloitte & Touche LLP, 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 believe that all representations made to Deloitte & Touche LLP were valid and appropriate.

A handwritten signature in black ink that reads "Tommy J. Tompkins".

Tommy J. Tompkins
County Auditor

June 26, 1998



INDEPENDENT AUDITORS' REPORT

County Judge Robert Eckels
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 (the "County"), as of February 28, 1998, 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 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 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, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 1998, on our consideration of the County's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Deloitte & Touche LLP

June 26, 1998

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
February 28, 1998**

<u>ASSETS AND OTHER DEBITS</u>	<u>Governmental Fund Types</u>				<u>Account Groups</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>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>	
							<u>1998</u>	<u>1997</u>
Cash and Investments (Note 2):								
Cash and Cash Equivalents	\$ 32,848,567	\$ 5,899,161	\$ 63,525,539	\$ -	\$ -	\$ -	\$ 102,273,267	\$ 79,438,333
Investments	-	37,447,071	6,905,388	-	-	-	44,352,459	44,329,272
Receivables:								
Taxes, Net (Note 3)	1,998,188	1,813,794	-	-	-	-	3,811,982	2,575,309
Accounts	452,564	411,567	-	-	-	-	864,131	2,618,904
Accrued Interest	95,641	208,103	-	-	-	-	303,744	716,147
Taxes Due From Tax Assessor and Collector	-	969,656	-	-	-	-	969,656	1,995,106
Due From Other Funds	721,947	-	331,101	-	-	-	1,053,048	1,857
Other	-	-	-	-	-	-	-	344,988
Deferred Compensation Plan Assets (Note 8)	-	-	-	1,213,465	-	-	1,213,465	968,795
Land (Note 4)	-	-	-	-	933,643	-	933,643	1,118,061
Buildings (Note 4)	-	-	-	-	5,059,730	-	5,059,730	5,059,730
Improvements Other Than Buildings (Note 4)	-	-	-	-	1,200,668	-	1,200,668	1,200,668
Equipment (Note 4)	-	-	-	-	12,257,162	-	12,257,162	12,072,470
Construction Work in Progress (Note 4)	-	-	-	-	51,377,746	-	51,377,746	32,601,534
Flood Control Projects (Note 4)	-	-	-	-	766,888,001	-	766,888,001	759,625,234
Amount Available in Debt Service Funds For:								
Debt Service	-	-	-	-	-	44,786,558	44,786,558	39,035,105
Amount to be Provided For:								
Retirement of General Long-Term Debt	-	-	-	-	-	217,007,071	217,007,071	246,887,016
Compensatory Time Payable	-	-	-	-	-	174,857	174,857	155,996
TOTAL ASSETS AND OTHER DEBITS	\$ 36,116,907	\$ 46,749,352	\$ 70,762,028	\$ 1,213,465	\$ 837,716,950	\$ 261,968,486	\$ 1,254,527,188	\$ 1,230,744,525

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, 1998**

<u>LIABILITIES, EQUITY AND OTHER CREDITS</u>	<u>Governmental Fund Types</u>				<u>Account Groups</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>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>	
							<u>1998</u>	<u>1997</u>
Liabilities:								
Vouchers Payable	\$ 1,521,467	\$ -	\$ 1,770,965	\$ -	\$ -	\$ -	\$ 3,292,432	\$ 1,001,399
Accrued Payroll and Compensated Absences	801,548	-	-	-	-	-	801,548	790,729
Retainages Payable	120,520	-	239,524	-	-	-	360,044	-
Deferred Compensation Due Employees (Note 8)	-	-	-	1,213,465	-	-	1,213,465	968,795
Customer Deposits	-	-	-	-	-	-	-	12,500
Due to Other Funds	193,821	149,000	-	-	-	-	342,821	1,857
Deferred Revenues	2,122,873	1,813,794	-	-	-	-	3,936,667	2,575,309
Bonds Payable (Note 5)	-	-	-	-	-	261,793,629	261,793,629	285,922,121
Compensatory Time Payable (Note 5)	-	-	-	-	-	174,857	174,857	155,996
Total Liabilities	4,760,229	1,962,794	2,010,489	1,213,465	-	261,968,486	271,915,463	291,428,706
Equity and Other Credits:								
Investment in General Fixed Assets	-	-	-	-	837,716,950	-	837,716,950	811,677,697
Fund Balances:								
Reserved for:								
Encumbrances	15,795,639	-	14,517,931	-	-	-	30,313,570	19,336,079
Debt Service	-	44,786,558	-	-	-	-	44,786,558	39,035,105
Unreserved:								
Designated for Capital Projects	-	-	54,233,608	-	-	-	54,233,608	58,331,341
Undesignated	15,561,039	-	-	-	-	-	15,561,039	10,935,597
Total Equity and Other Credits	31,356,678	44,786,558	68,751,539	-	837,716,950	-	982,611,725	939,315,819
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 36,116,907	\$ 46,749,352	\$ 70,762,028	\$ 1,213,465	\$ 837,716,950	\$ 261,968,486	\$ 1,254,527,188	\$ 1,230,744,525

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, 1998
With Comparative Totals
For The Year Ended February 28, 1997**

	Operations and Maintenance (General)	Debt Service	Capital Projects	Total	
				(Memorandum Only)	
				1998	1997
Revenues:					
Taxes	\$ 32,661,282	\$ 45,106,228	\$ 19,128,354	96,895,864	\$ 88,706,263
Intergovernmental	-	-	2,100,000	2,100,000	1,646,575
Interest	966,078	1,302,777	3,070,266	5,339,121	4,560,483
Miscellaneous	574,427	10	2,535,570	3,110,007	3,886,781
Total Revenues	34,201,787	46,409,015	26,834,190	107,444,992	98,800,102
Expenditures:					
Current Operating:					
Flood Control	28,064,716	-	-	28,064,716	25,487,198
Tax Administration	718,375	-	-	718,375	787,078
Capital Outlay	-	-	20,507,112	20,507,112	12,849,798
Debt Service (Note 5):					
Principal Retirement	-	30,500,000	-	30,500,000	32,340,000
Interest and Fiscal Charges	-	10,398,136	-	10,398,136	12,322,326
Total Expenditures	28,783,091	40,898,136	20,507,112	90,188,339	83,786,400
Excess of Revenues Over Expenditures	5,418,696	5,510,879	6,327,078	17,256,653	15,013,702
Other Financing Sources (Uses):					
Operating Transfers In	-	240,574	-	240,574	1,948,074
Operating Transfers Out	-	-	(240,574)	(240,574)	(1,948,074)
Total Other Financing Sources (Uses):	-	240,574	(240,574)	-	-
Excess of Revenues and Other Sources Over Expenditures and Other Uses	5,418,696	5,751,453	6,086,504	17,256,653	15,013,702
Fund Balances, Beginning	25,937,982	39,035,105	62,665,035	127,638,122	112,624,420
Fund Balances, Ending	\$ 31,356,678	\$ 44,786,558	\$ 68,751,539	\$ 144,894,775	\$ 127,638,122

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) AND BUDGETED DEBT SERVICE FUNDS**

For The Year Ended February 28, 1998

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUNDS</u>		
	<u>Budget</u>	<u>Actual (Note 1)</u>	<u>Favorable (Unfavorable) Budget</u>	<u>Budget</u>	<u>Actual (Note 1)</u>	<u>Favorable (Unfavorable) Budget</u>
Revenues and Other Financing Sources:						
Taxes	\$ 31,011,524	\$ 32,481,763	\$ 1,470,239	\$ 45,598,079	\$ 45,012,328	\$ (585,751)
Interest	800,000	1,096,331	296,331	652,705	1,293,510	640,805
Miscellaneous	299,000	470,729	171,729	-	10	10
Transfers In	-	-	-	2,170,000	240,574	(1,929,426)
Total Revenues and Other Financing Sources	<u>32,110,524</u>	<u>34,048,823</u>	<u>1,938,299</u>	<u>48,420,784</u>	<u>46,546,422</u>	<u>(1,874,362)</u>
Expenditures:						
Current Operating and Capital Outlay:						
Flood Control	57,845,385	27,120,892	30,724,493	-	-	-
Tax Administration	850,077	718,375	131,702	-	-	-
Debt Service	-	-	-	85,927,985	40,898,136	45,029,849
Total Expenditures	<u>58,695,462</u>	<u>27,839,267</u>	<u>30,856,195</u>	<u>85,927,985</u>	<u>40,898,136</u>	<u>45,029,849</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	<u>\$ (26,584,938)</u>	<u>\$ 6,209,556</u>	<u>\$ 32,794,494</u>	<u>\$ (37,507,201)</u>	<u>\$ 5,648,286</u>	<u>\$ 43,155,487</u>

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1998**

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 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 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."

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.

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.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
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NOTES TO THE FINANCIAL STATEMENTS
February 28, 1998**

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, ad valorem taxes and other revenue services.

FIDUCIARY FUNDS

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

ACCOUNT GROUPS

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 and Agency Funds are accounted for on the modified accrual basis of accounting. The Governmental Funds use a current financial resource measurement focus. Agency Funds are custodial in nature and do not involve measurement of operations. 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 period. 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, 1998**

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. Harris 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, Special Revenue Funds and Debt Service Funds. 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.
- 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, 1998**

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

	General Fund	Debt Service
Revenues:		
Cash basis (budget basis)	\$34,048,823	\$46,546,422
Accrued in 1997 received in 1998	(1,569,872)	(1,285,056)
Accrued in 1998 to be received in 1999	1,722,836	1,388,223
Operating Transfers Reclassification	-	(240,574)
Revenues on modified accrual basis (GAAP basis)	<u>34,201,787</u>	<u>46,409,015</u>
Expenditures:		
Cash basis (budget basis)	27,839,267	40,898,136
Incurred during 1997 paid in 1998	(535,866)	-
Incurred during 1998 payable in 1999	<u>1,479,690</u>	<u>-</u>
Expenditures on modified accrual basis (GAAP basis)	<u>28,783,091</u>	<u>40,898,136</u>
Excess of revenues over expenditures on modified accrual basis (GAAP basis)	<u>\$ 5,418,696</u>	<u>\$ 5,510,879</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 fund which are reported at market value.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1998**

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.

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. 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

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1998**

termination, exempt employees are paid one-half of the compensatory time earned at the wage rate at time of termination.

As of February 28, 1998, \$454,535 and \$174,857 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 or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation since interfund elimination's have not been made in the aggregation of this data.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

L. Reclassifications

Certain reclassifications have been made to fiscal year 1997 amounts to conform to fiscal year 1998 presentations.

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.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 1998**

Deposits:

As of February 28, 1998 the carrying amount of the District's demand and time deposits was \$4,340,769. The bank balance of \$3,708,334 was covered by federal depository insurance or collateralized with securities held by the District's agent in the District's name.

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, 1998 the District's investible funds were \$146,625,726. The following percentages of the District's investible funds were invested in the following categories of investments, the average remaining maturity of such investments was 366 days.

Distribution of District Investible Funds

U. S. Government Securities	73.00%
Commercial Paper	11.03%
Municipal Securities	13.01%
Demand Deposits	2.96%

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:

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A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
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- 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, 1998.

	Categories			Carrying Amount	Market Value
	1	2	3		
U. S. Government Securities	\$107,019,009	\$ -	\$ -	\$107,019,009	\$107,274,348
Commercial Paper	16,183,560			16,183,560	16,178,014
Municipal Securities	<u>19,082,388</u>	-	-	<u>19,082,388</u>	<u>19,108,207</u>
Subtotal	<u>\$142,284,957</u>	<u>\$ -</u>	<u>\$ -</u>	142,284,957	142,560,569
Investments in Deferred Compensation Assets - Money Market Mutual Funds				<u>1,213,465</u>	<u>1,213,465</u>
TOTAL INVESTMENTS				<u>\$143,498,422</u>	<u>\$143,774,034</u>

3. PROPERTY TAXES

Property taxes for 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 (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, Harris County Flood Control District, Harris County Hospital District and Port of Houston Authority - Debt Tax Rate, only.

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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 1997 tax year, per \$100 of taxable valuation:

	Operations and Maintenance (General)	Debt Service	Total
Flood Control District	\$0.04264	\$0.03703	\$0.07967

Property tax receivables of \$3,811,982 as of February 28, 1998 are reported net of an allowance for uncollectible taxes of \$15,063,541.

4. GENERAL FIXED ASSETS

General fixed assets transactions are summarized as follows:

	Balance March 1, 1997	Additions	Deductions	Balance February 28, 1998
Land	\$ 1,118,061	\$ -	\$ 184,418	\$ 933,643
Buildings	5,059,730	-	-	5,059,730
Improvements Other Than Buildings	1,200,668	-	-	1,200,668
Equipment	12,072,470	3,722,697	3,538,005	12,257,162
Construction Work in Progress	32,601,534	26,038,980	7,262,768	51,377,746
Flood Control Projects	<u>759,625,234</u>	<u>7,262,767</u>	<u>-</u>	<u>766,888,001</u>
TOTAL	<u>\$811,677,697</u>	<u>\$37,024,444</u>	<u>\$10,985,191</u>	<u>\$837,716,950</u>

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 98

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

	Balance March 1, <u>1997</u>	<u>Increase</u>	<u>Decrease</u>	Balance February 28, <u>1998</u>
Total Bonds Payable - Principal	\$236,311,645	\$ -	\$30,500,000	\$205,811,645
Unamortized Premium, Series 1991	11,507,342	-	2,198,058	9,309,284
Unamortized Premium, Series 1993	7,277,915	-	90,368	7,187,547
Accretion of Discount-Compound Interest				
Bonds, Series 1991	28,365,320	7,700,070	-	36,065,390
Bonds, Series 1993	<u>2,459,899</u>	<u>959,864</u>	<u>-</u>	<u>3,419,763</u>
Total Bonds Payable	285,922,121	8,659,934	32,788,426	261,793,629
Compensatory Time Payable	<u>155,996</u>	<u>18,861</u>	<u>-</u>	<u>174,857</u>
Total General Long-Term Debt	<u>\$286,078,117</u>	<u>\$8,678,795</u>	<u>\$32,788,426</u>	<u>\$261,968,486</u>

C. OUTSTANDING BONDED DEBT - FEBRUARY 28, 1998

	Interest Rates(%)	<u>Date Series</u>		Balance February 28, <u>1998</u>
		<u>Issued</u>	<u>Matures</u>	
Series 1988A	7.80 - 8.50	1988	1999	\$ 2,000,000
Series 1989A	6.90 - 8.90	1989	1999	2,000,000
Series 1989B	6.75 - 8.00	1989	2001	4,000,000
Series 1989C	6.80 - 8.50	1989	1999	2,000,000
Refunding Series 1991	(a)	1991	2006	79,326,660
Series 1992A	5.125 - 7.125	1992	2013	15,780,000
Series 1992B	5.00 - 7.00	1992	2014	13,155,000
Refunding Series 1993A	(b)	1993	2015	<u>87,549,985</u>
TOTAL				<u>\$205,811,645</u>

(a) Includes Compound Interest Bonds @ 6.2-6.5% to mature 1999-2002. Includes Current Interest Bonds @ 5.25-6.25% to mature 1995-2006. Includes Adjustable Sinking Fund Bonds @ 6.2%-6.5% to mature 1998-2002.

(b) Includes Compound Interest Bonds @ 5.4-5.6% to mature 2007-2011. Includes Current Interest Bonds @ 3.3-5.6% to mature 1995-2015.

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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>
1999	\$ 31,849,968	\$ 13,179,883	\$ 45,029,851
2000	22,552,524	23,177,419	45,729,943
2001	22,170,242	22,364,712	44,534,954
2002	20,244,282	17,148,324	37,392,606
2003	15,534,644	19,061,595	34,596,239
2004-2008	69,190,287	22,022,787	91,213,074
2009-2013	16,574,698	18,832,345	35,407,043
2014-2015	<u>7,695,000</u>	<u>649,019</u>	<u>8,344,019</u>
TOTAL	<u>\$205,811,645</u>	<u>\$136,436,084</u>	<u>\$342,247,729</u>

E. UNISSUED AUTHORIZED BONDS

As of February 28, 1998, 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. As of February 28, 1998, the outstanding principal balance of these defeased Flood Control property tax bonds was \$197,175,000.

6. RETIREMENT PLAN

PLAN DESCRIPTION

The District, a component unit of Harris County, provides pension, disability, and death benefits for all of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas County and District Retirement System (TCDRS), one of over 450 administered by TCDRS, a multiple-employer public employee retirement system agent. It is the opinion of the TCDRS management that the plans in TCDRS are substantially defined contribution plans, but they have provided additional voluntary disclosure information to help foster a better understanding of some of the nontraditional characteristics of the plan.

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,

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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 employer are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 1998 is 8.73%. The contribution rates for calendar years 1997 and 1996 were 8.65 % and 8.29%, respectively.

The plan provisions are adopted by the governing body of the District, within the options available in the state statutes governing TCDRS. 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. A member is vested after eight years but must leave his accumulated contributions in the plan. If a member withdraws his personal contributions in a lump sum, he is not entitled to any amounts contributed by the employer.

The contribution rate payable by all employee members is 7% as adopted by the governing body of the District. Monthly contributions by each employee member are based on the member's covered compensation and the employee contribution rate. The member's contributions are credited with interest at a rate determined each December by the TCDRS Board of Trustees according to governing state law. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits, with interest. The level of these monetary credits is adopted by the governing body of the District. The District's current benefit plan provides for employer-financed monetary credits for service since the plan began of 220% of the employee's 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 employee's accumulated contributions and the employer-financed monetary credits were used to purchase an annuity within TCDRS.

PAYROLL AND CONTRIBUTION INFORMATION

The County's total payroll in fiscal year 1998 was \$379,343,913, and the County's contributions were based on a covered payroll of \$374,948,791. The District's total payroll and covered payroll were \$9,230,893 and \$9,206,615. The employer and employee contributions for fiscal year 1998 were made as required and are detailed below for the Harris County entity, of which the District is a component unit. The percentages detailed below for employer contributions are based on weighted averages. Employee contributions may include the purchase of credits for military or legislative service or the buyback of previously forfeited service credit. There were no related-party transactions.

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	Contribution Amounts (Rates) (Fiscal Year 1998)		
	Total	Normal Cost	Prior Service
Employee	\$26,246,415 (7%)	N/A	N/A
Employer	\$32,485,138 (8.66%)	\$24,682,208 (6.58%)	\$7,802,930 (2.08%)

VOLUNTARY ADDITIONAL DISCLOSURE

Even though the substance of the District's plan is not to provide a defined benefit, some additional voluntary disclosure is appropriate due to the nontraditional existence of an unfunded pension benefit obligation and employer-financed monetary credits in excess of 100% of the employee's personal contributions. Part of the District's contribution is the normal cost, while the remaining portion is the amortization of the unfunded actuarial liability.

Statement No. 5 of the Governmental Accounting Standards Board (GASB No. 5) defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee pension plans.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB No. 5 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. The calculations were made as part of the annual actuarial valuation as of December 31, 1996. Significant actuarial assumptions used to compute the actuarially determined contribution requirements in that valuation are the same as those used to compute the pension benefit obligation. Because of the money-purchase nature of the plan, the interest rate assumptions, currently 9% and 7% per year with a weighted average of 8%, do not have as much impact on the results as for a defined benefit plan. An annual rate of 9% is used for calculating the actuarial liability and normal cost contribution rate. For accumulating existing monetary credits after the valuation date, an annual rate of 7% is assumed, 2% lower than the 9% assumption in recognition of the statutory interest allocation method. Market value of assets is not determined separately for each plan, but the market value of assets for TCDRS as a whole was 104.8% of book value as of December 31, 1996.

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Pension Benefit Obligation

Pension Benefit Obligation:	
Annuitants:	
Currently receiving benefits	\$ 99,931,313
Terminated employees	59,272,971
Members:	
Accumulated employee contributions including allocated investment earnings	312,263,651
Employer-financed vested	357,239,880
Employer-financed nonvested	<u>47,464,915</u>
Total	876,172,730
Net Assets Available for Benefits, at Book Value	<u>867,259,177</u>
Unfunded Pension Benefit Obligation	<u>\$ 8,913,553</u>

TREND INFORMATION

Historical trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three-year historical trend information is presented in the following table for plan years ending December 31, 1994 through December 31, 1996 for the Harris County reporting entity.

Plan Year	Net Benefits Available For Benefits as a Percentage of Pension Benefit Obligation	Unfunded Pension Benefit Obligations as a Percentage of Covered Payroll	Employer Contributions As a Percentage of Annual Covered Payroll
1994	98.24%	3.76%	7%
1995	98.72%	2.90%	8.26%
1996	98.98%	2.38%	8.29%

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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 meeting the service and retirement age requirements of the District's retirement plan. These requirements, which were modified effective January 1, 1995, require 30 years of service, or 8 years of service and 60 years of age, or years of service plus age equal 75 or more. The 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 1998 totaled \$413,800. Presently, 127 retirees qualified for retirement benefits.

8. DEFERRED COMPENSATION PLAN

The District offers all full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer federal income taxation on a portion of their compensation until future years. Participation in the plan is optional. The individual assets in the plan are not available to the employees until termination, retirement, death or unforeseeable emergency.

All amounts of deferred compensation and 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. The District is not responsible for losses under the plan but has 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. The plan assets and liabilities are reported in the Deferred Compensation Fund and reported as an Agency Fund. The plan is administered by the plan's trustee. Various investment options are underwritten by Aetna Casualty and Life Insurance Company and PEBSCO Securities Corporation.

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.

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10. RISK MANAGEMENT

The District's risk-of-loss exposures include exposure to liability and accidental loss of real and personal property as well as human resources. District operations involve a variety of high risk activities including, but not limited to, construction and maintenance activities. The County's Office of 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 and indemnity 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, 1998 is \$500,000 per occurrence. 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 employee and retiree coverage and 50% of the cost of dependant 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 Risk Management 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.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULE

County Judge Robert Eckels
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"), a component unit of Harris County, Texas, was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental schedule listed in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the District. Such schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly presented 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, 1997, February 29, 1996, February 28, 1995 and February 28, 1994 and for each of the years then ended (which financial statements are not presented herein); and we expressed unqualified opinions on those financial statements.

Deloitte : Touche LLP

June 26, 1998

**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, 1998

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Revenues:					
Taxes	\$ 27,644,449	\$ 29,508,362	\$ 30,268,275	\$ 31,678,702	\$ 32,661,282
Interest	410,973	452,381	816,220	843,995	966,078
Miscellaneous	494,945	576,069	604,406	1,251,976	574,427
Total Revenues	<u>28,550,367</u>	<u>30,536,812</u>	<u>31,688,901</u>	<u>33,774,673</u>	<u>34,201,787</u>
Expenditures:					
Current Operating:					
Flood Control	32,536,285	33,308,168	24,582,256	25,487,198	28,064,716
Tax Administration	959,747	981,492	618,900	787,078	718,375
Total Expenditures	<u>33,496,032</u>	<u>34,289,660</u>	<u>25,201,156</u>	<u>26,274,276</u>	<u>28,783,091</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,945,665)</u>	<u>(3,752,848)</u>	<u>6,487,745</u>	<u>7,500,397</u>	<u>5,418,696</u>
Other Financing Sources (Uses):					
Operating Transfers In	1,136	56,500	-	107,113	-
Operating Transfers Out	(1,136)	(56,500)	(295,960)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(295,960)</u>	<u>107,113</u>	<u>-</u>
Excess (Deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(4,945,665)</u>	<u>(3,752,848)</u>	<u>6,191,785</u>	<u>7,607,510</u>	<u>5,418,696</u>
Fund Balances, Beginning	20,837,200	15,891,535	12,138,687	18,330,472	25,937,982
Residual Equity, Transfers In	1,536	-	-	-	-
Residual Equity, Transfers Out	(1,536)	-	-	-	-
Fund Balances, Ending	<u>\$ 15,891,535</u>	<u>\$ 12,138,687</u>	<u>\$ 18,330,472</u>	<u>\$ 25,937,982</u>	<u>\$ 31,356,678</u>