

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

Basic Financial Statements



**For the Fiscal Year Ended
February 28, 2006**

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

*Basic Financial Statements and Single Audit
for the Fiscal Year Ended February 28, 2006
And Independent Auditors' Report*

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 28, 2006**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Harris County Flood Control District (the "District"), a component unit of Harris County, Texas (the "County") as of and for the year ended February 28, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of February 28, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the District restated beginning net assets for overstatement of bond premium recorded in a prior year.

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

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the U. S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is the responsibility of the District's management. This schedule has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is also the responsibility of the District's management. The supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

July 27, 2006

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

This section of the Harris County Flood Control District's (the "District") financial statements presents management's discussion and analysis ("MD&A") of the financial activities of the District during the fiscal year ended February 28, 2006. Please read it in conjunction with the District's basic financial statements following this section.

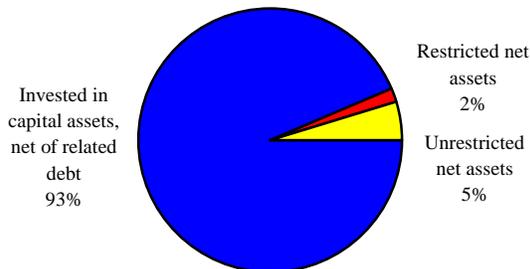
The District is a component unit of Harris County, Texas (the "County") and is included as a blended component unit in the County's financial statements. This analysis presents information about the District and the operations and activities of the District only and is not intended to provide information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

FINANCIAL HIGHLIGHTS

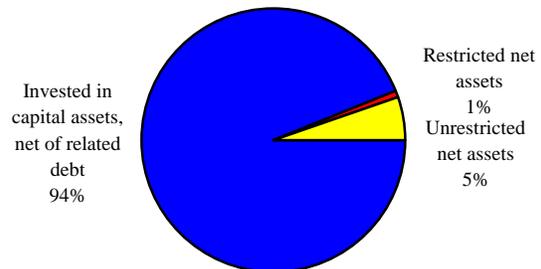
Government-wide

- The total government-wide assets of the District exceeded the liabilities (net assets) at February 28, 2006 by \$1,397,555,359. This is comparable to the previous year when assets exceeded liabilities by \$1,355,588,405 (as restated). The restatement of prior year net assets is the result of an overstatement of bond premium which was net of amortization.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$1,307,736,573 include land, improvements, construction in progress and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets. The decrease from 94% of total net assets for the prior year to 93% is primarily due to an increase in restricted net assets.
 - (2) Net assets of \$22,629,349 are restricted by constraints imposed from outside the District such as debt obligations. Restricted net assets increased from 1% to 2% of total net assets due to increased outside funding for joint projects in the current year.
 - (3) Unrestricted net assets of \$67,189,437 represent the portion available to meet ongoing obligations to citizens and creditors. Unrestricted net assets remained unchanged at 5% of total net assets.

NET ASSETS BY CATEGORY
February 28, 2006



NET ASSETS BY CATEGORY
February 28, 2005



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

Fund Level

- As of February 28, 2006, the District's governmental funds reported combined fund balances of \$210,177,844. This compares to the prior year combined fund balance of \$212,505,752 showing a decrease of \$2,327,908 during the current year. The combined unreserved fund balance of \$109,569,035 for fiscal year 2006 shows a decrease of \$12,832,713 over the prior year. These decreases were primarily attributable to an increase in reserves for encumbrances.
- At the end of the fiscal year, the total fund balance for the Operations and Maintenance (General) fund was \$77,295,109. The unreserved fund balance was \$52,150,492 or 66.9% of total general fund expenditures and 91.1% of total general fund revenues. The General fund had a reserved fund balance of \$25,144,617 which is set aside for encumbrances, debt service and prepaids. An increase in revenues was the primary reason total fund balance increased by \$2,225,386 this year.
- The fund balance in the Debt Service fund of \$15,240,258 was fully reserved at the end of the fiscal year. This represents a decrease of \$3,693,908 from the prior year balance of \$18,934,166. Revenues, primarily from taxes, declined by \$2,606,701 and expenditures decreased by \$4,457,618 primarily due to decreased debt service requirements.
- The Capital Projects fund at fiscal year end had an unreserved fund balance of \$57,418,543 and a reserved fund balance of \$60,223,934 for a total Capital Projects fund balance of \$117,642,477 down from \$118,501,863 in the prior year.
- The District issues debt to finance an ongoing capital improvement program, and during fiscal year 2006, issued \$51,845,000 in commercial paper. Note 6 to the financial statements, provides additional details related to long-term debt. The debt service ad-valorem tax rate for the 2005 tax year for the District totaled \$0.00589 per \$100 valuation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements, which are comprised of three components: 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

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

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

The statement of activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

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

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

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

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

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

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

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 17-34 of this report.

Required Supplementary Information is presented concerning the District's Operations and Maintenance (General) Fund budgetary schedule. The District adopts an annual budget for this fund. A budgetary comparison schedule, which includes the original and final amended budgets and actual figures, has been provided to demonstrate compliance with these budgets. Required supplementary information can be found beginning on page 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,397,555,359 for fiscal year ended 2006 and \$1,355,588,405 (as restated) for fiscal year 2005. Net assets increased primarily due to an increase in capital assets. For further information regarding the increase in capital assets see Note 5 to the financial statements.

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

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

	Governmental Activities	
	February 28, 2006	February 28, 2005 (as restated)
Current and other assets	\$ 237,638	\$ 232,210
Capital Assets	1,672,399	1,594,652
Total assets	<u>1,910,037</u>	<u>1,826,862</u>
Current and other liabilities	29,750	20,724
Long-term liabilities	482,732	450,550
Total liabilities	<u>512,482</u>	<u>471,274</u>
Net assets:		
Invested in capital assets, net of related debt	1,307,737	1,271,462
Restricted net assets	22,629	13,252
Unrestricted net assets	67,189	70,874
Total net assets	<u>\$ 1,397,555</u>	<u>\$ 1,355,588</u>

The largest portion of the District's current fiscal year net assets, \$1,307,736,573 or 93% of the total, reflects its investments in capital assets (e.g. land, improvements, buildings, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The main use of these capital assets is to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's net assets invested in capital assets, net of related debt, increased because debt related to capital assets, net of unspent debt proceeds, increased \$41,472,166 while capital assets increased \$77,746,394 in the current year.

2% of the District's current fiscal year net assets represents resources that are subject to external restrictions on how they may be used. Restricted net assets totaled \$22,629,349 with \$12,268,867 restricted for capital projects and \$10,360,482 restricted for debt service. Due to increased outside funding for joint projects in the current year net assets increased \$9,377,572.

The remaining balance of the District's current fiscal year net assets, 5% or \$67,189,437 represents unrestricted net assets, which may be used by the District for current and future needs.

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

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

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

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

	Governmental Activities	
	<u>February 28, 2006</u>	<u>February 28, 2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,008	\$ 2,545
Operating grants and contributions	37,812	5,802
Capital grants and contributions	21,117	422
General revenues:		
Property taxes	66,061	65,955
Earnings on investments	6,207	1,789
Miscellaneous	904	2,005
Gain on sale of capital assets	534	218
Total revenues and other items	<u>133,643</u>	<u>78,736</u>
Expenses:		
Flood control	71,800	60,911
Tax Administration	441	574
Interest on long-term debt	19,435	15,404
Total expenses and other items	<u>91,676</u>	<u>76,889</u>
Change in net assets	41,967	1,847
Net assets - beginning (as restated)	1,355,588	1,353,741
Net assets - ending	<u>\$ 1,397,555</u>	<u>\$ 1,355,588</u>

Revenues

For fiscal year ended February 28, 2006, revenues from governmental activities totaled \$133,642,968.

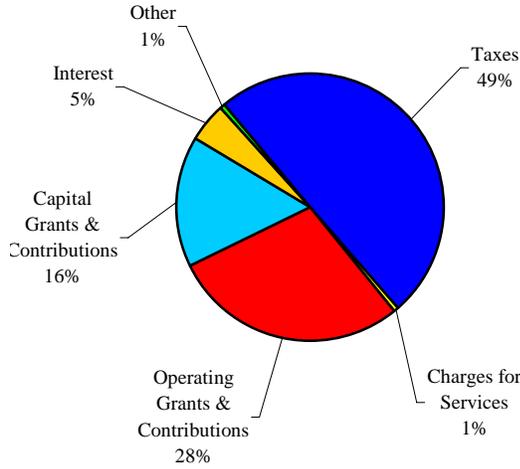
Property taxes of \$66,061,359 were the District's largest revenue source and comprised 49% of total revenues. The tax rate was \$.03322 per \$100 of assessed value for fiscal year 2006 and \$.03318 per \$100 of assessed value for fiscal year 2005. The assessed value increased in fiscal year 2006 to \$267,364,118 from \$231,497,956 in fiscal year 2006.

Program revenues are derived from the program itself and reduce the cost of the function to the District. Total program revenues were \$59,936,983 or 45% of total revenues. A major portion of program revenues are operating grants and contributions of \$37,812,070 (28%) and represent receipts primarily from Federal Emergency Management Agency (FEMA) and the Army Corps of Engineers. The second largest portion of program revenues consists of capital grants and contributions of \$21,117,019 (16%), associated with capital assets contributed by Harris County through grant programs. Another portion of program revenues is charges for services of \$1,007,894 (1%), which are primarily from impact fees on development.

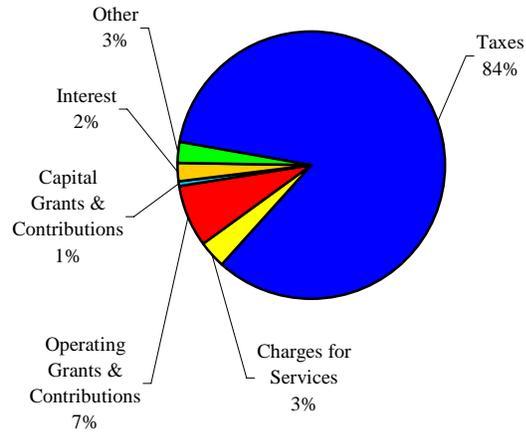
General revenues are revenues that can not be assigned to a specific function. They consist of property taxes (discussed above), unrestricted investment or interest earnings of \$6,207,050 (5% of total revenues), miscellaneous income of \$904,099 and gain on sale of capital assets of \$533,477 (both less than 1% of total revenues). Miscellaneous income is primarily comprised of collections for various fees.

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

REVENUES BY SOURCE
Year ended February 28, 2006



REVENUES BY SOURCE
Year ended February 28, 2005

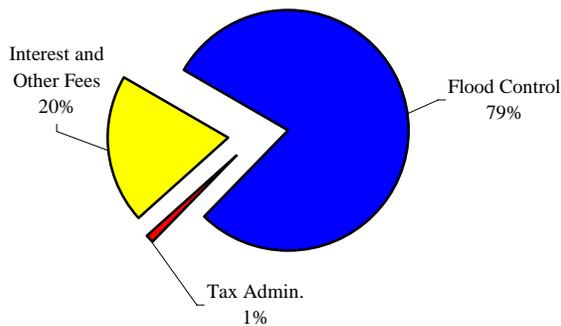


Expenses

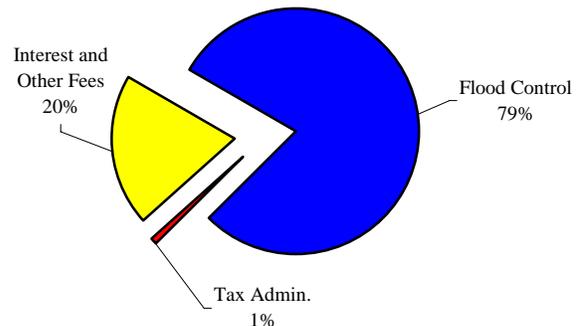
For fiscal year ended February 28, 2006, expenses for governmental activities totaled \$91,676,014, compared to \$76,888,925. The percentages of the total expenses by function remain unchanged from the prior year.

Flood control administration \$71,800,323 is the District's largest function with 79% of total expenses. This was an increase from prior year of \$10,889,488, due to an increase in FEMA grant expenses with the addition of the grants special revenue fund. Interest on long term debt makes up the second largest category of expenses with \$19,434,892 or 20% of the total up from \$15,404,007 last year. Tax administration, which represents the cost to collect taxes assessed on behalf of the District by the Harris County Tax Assessor is \$440,799 or approximately 1% of total expenses and has declined from \$574,083 last year.

EXPENSES BY FUNCTION
Year ended February 28, 2006



EXPENSES BY FUNCTION
Year ended February 28, 2005



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

FINANCIAL ANALYSIS OF MAJOR FUNDS

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

At February 28, 2006, the District's governmental funds reported combined fund balances of \$210,177,844, of which \$83,501,284 is reserved for encumbrances and \$17,102,478 is reserved for debt service. The remainder, \$109,574,082, is available to meet the District's current and future needs. The District's combined fund balances decreased \$2,327,908. The reasons for this change are explained below by individual fund.

The Operating and Maintenance (General) fund is the operating fund of the District. Fund balance in the General Fund increased by \$2,225,386. This was primarily the result of an increase in tax revenue as a result of an increase in the operations and maintenance component of the tax rate from .02553 to .02733 per \$100 valuation. A decrease in capital outlay expenditures also contributed to the change.

The Special Revenue Grants fund has been created this year to account for the addition of grants that have been awarded in the District's name. In prior fiscal years grants were awarded to Harris County with the District operating them on behalf of the County. There is no fund balance in grant funds.

Fund balance in the Debt Service fund decreased by \$3,693,908, primarily the result of a reduction in property tax revenues, caused by a decrease in the debt service component of the tax rate. At February 28, 2006, this fund reported revenues of \$13,229,528. The majority of these revenues were from property taxes. See Note 3 to the financial statements and Schedule 4 for additional information on property taxes.

The fund balance in the Capital Projects fund decreased by \$859,386, which was due to expenditures exceeding revenues and the draw down of commercial paper. The Capital Projects fund relies primarily on the issuance of bonds and commercial paper to support current and future projects. This year funding for projects was provided through commercial paper and joint funded projects with outside agencies. See Note 6 to the financial statements for further discussion of commercial paper.

OPERATING AND MAINTENANCE (GENERAL) FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a \$21,147,175 increase in appropriations and are briefly summarized as follows:

During the year actual revenues exceeded budgetary estimates by \$7,830,724. This is attributable to unanticipated property tax revenues. Actual expenditures were less than budgetary estimates by \$70,725,543. This is primarily due to fewer expenditures than anticipated in the general operating flood control account. The net effect of under-realization of revenues and appropriations resulted in a positive variance of \$78,556,267, thus eliminating the need to draw upon the existing fund balance.

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

CAPITAL ASSETS

The District's capital assets, net of accumulated depreciation for its governmental activities as of February 28, 2006, amounted to \$1,672,398,695. These capital assets include land, improvements, buildings, flood control infrastructure, equipment, and construction in progress, as shown in the table below. For further information regarding capital assets, see Note 5 to the financial statements.

	Balance February 28, 2006	Balance February 28, 2005
Governmental Activities:		
Land	\$ 1,372,067,313	\$ 1,345,713,543
Construction in Progress	109,890,494	101,517,436
Buildings	3,330,706	3,330,706
Equipment	7,635,387	7,117,902
Flood Control Projects	<u>326,285,272</u>	<u>275,006,250</u>
	1,819,209,172	1,732,685,837
Less Accumulated Depreciation	<u>(146,810,477)</u>	<u>(138,033,536)</u>
Totals	<u><u>\$ 1,672,398,695</u></u>	<u><u>\$ 1,594,652,301</u></u>

LONG-TERM DEBT

At February 28, 2006, the District had total long-term liabilities outstanding of \$482,732,352. Refer to Note 6 to the financial statements for further information on the District's long term debt. District officials, citizens, and investors will find the ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita as useful indicators of the District's debt position; this information is shown in the statistical section of this report.

	Outstanding at February 28, 2006	Outstanding at February 28, 2005
Governmental Activities:		
Bonds Payable (restated)	\$ 403,967,127	\$ 423,633,671
Commercial Paper Payable	78,425,000	26,580,000
Compensatory Time Payable	<u>340,196</u>	<u>336,229</u>
Totals (restated)	<u><u>\$ 482,732,323</u></u>	<u><u>\$ 450,549,900</u></u>

ECONOMIC FACTORS

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

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
February 28, 2006

	Governmental Activities
ASSETS	
Cash and investments:	
Cash and cash equivalents	\$ 16,214,814
Investments	192,454,417
Receivables:	
Taxes, net	2,566,585
Accounts	13,798,988
Accrued interest	1,200,008
Other	6,019,803
Due from primary government	881,869
Prepays and other assets	5,047
Restricted cash and investments	1,862,220
Deferred charges	2,634,980
Capital assets:	
Land, improvements, and construction in progress	1,481,957,807
Other capital assets, net of depreciation	190,440,888
Total assets	1,910,037,426
 LIABILITIES	
Liabilities:	
Vouchers payable	13,247,552
Accrued payroll and compensated absences	1,567,738
Retainages payable	2,099,240
Due to primary government	5,344,318
Accrued interest	7,490,896
Long-term liabilities:	
Due within one year:	
Bonds payable	17,070,000
Commercial paper payable	7,129,545
Compensated absences	265,353
Due in more than one year:	
Bonds payable	386,897,127
Commercial paper payable	71,295,455
Compensated absences	74,843
Total liabilities	512,482,067
 NET ASSETS	
Invested in capital assets, net of related debt	1,307,736,573
Restricted for debt service	10,360,482
Restricted for capital projects	12,268,867
Unrestricted	67,189,437
Total net assets	\$ 1,397,555,359

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF ACTIVITIES
For The Year Ended February 28, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental activities:					
Flood control administration	\$ 71,800,323	\$ 1,007,894	\$ 37,812,070	\$ 21,117,019	\$ (11,863,340)
Tax administration	440,799	-	-	-	(440,799)
Interest on long-term debt	19,434,892	-	-	-	(19,434,892)
Total governmental activities	<u>91,676,014</u>	<u>1,007,894</u>	<u>37,812,070</u>	<u>21,117,019</u>	<u>(31,739,031)</u>
General revenues:					
Taxes:					
Property taxes levied for general purposes					54,161,116
Property taxes levied for debt service					11,900,243
Earnings on investments					6,207,050
Miscellaneous					904,099
Gain on sale of capital assets					533,477
Total general revenues and other items					<u>73,705,985</u>
Change in net assets					41,966,954
Net assets - beginning (as restated) (Note 11)					<u>1,355,588,405</u>
Net assets - ending					<u>\$ 1,397,555,359</u>

See notes to the financial statements.

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
February 28, 2006

	Operations and Maintenance (General)	Special Revenue Grants	Debt Service	Capital Projects	Total 2006
ASSETS					
Cash and investments:					
Cash and cash equivalents	\$ 9,311,890	\$ -	\$ 1,693,628	\$ 5,209,296	\$ 16,214,814
Investments	67,830,897	-	12,638,566	111,984,954	192,454,417
Receivables:					
Taxes, net	1,817,685	-	748,900	-	2,566,585
Accounts	323	2,554,516	-	11,244,149	13,798,988
Accrued interest	177,788	-	3,494	1,018,726	1,200,008
Other	2,625,435	2,743,059	651,309	-	6,019,803
Due from other funds	34,025	17,246	-	2,291	53,562
Due from primary government	624,907	-	253,261	3,701	881,869
Prepays and other assets	5,047	-	-	-	5,047
Restricted cash and cash equivalents	1,862,220	-	-	-	1,862,220
Total assets	<u>\$ 84,290,217</u>	<u>\$ 5,314,821</u>	<u>\$ 15,989,158</u>	<u>\$ 129,463,117</u>	<u>\$ 235,057,313</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Vouchers payable	\$ 3,348,901	\$ 19,404	\$ -	\$ 9,879,247	\$ 13,247,552
Accrued payroll and compensated absences	1,567,738	-	-	-	1,567,738
Retainages payable	175,244	-	-	1,923,996	2,099,240
Due to other funds	-	36,316	-	17,246	53,562
Due to primary government	85,217	5,259,101	-	-	5,344,318
Deferred revenue	1,818,008	-	748,900	151	2,567,059
Total liabilities	<u>6,995,108</u>	<u>5,314,821</u>	<u>748,900</u>	<u>11,820,640</u>	<u>24,879,469</u>
Fund balances:					
Reserved for:					
Encumbrances	23,277,350	-	-	60,223,934	83,501,284
Debt service	1,862,220	-	15,240,258	-	17,102,478
Prepays	5,047	-	-	-	5,047
Unreserved	52,150,492	-	-	57,418,543	109,569,035
Total fund balances	<u>77,295,109</u>	<u>-</u>	<u>15,240,258</u>	<u>117,642,477</u>	<u>210,177,844</u>
Total liabilities and fund balances	<u>\$ 84,290,217</u>	<u>\$ 5,314,821</u>	<u>\$ 15,989,158</u>	<u>\$ 129,463,117</u>	<u>\$ 235,057,313</u>

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
February 28, 2006**

Total fund balances for governmental funds \$ 210,177,844

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

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

Land	\$ 1,372,067,313	
Construction in progress	109,890,494	
Flood control projects, net of \$141,148,232 accumulated depreciation	185,137,040	
Buildings, net of \$1,326,459 accumulated depreciation	2,004,247	
Equipment and vehicles, net of \$4,335,786 accumulated depreciation	<u>3,299,601</u>	
Total capital assets (See Note 5)		1,672,398,695

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

Balances as of February 28, 2006 were:

Accrued interest on bonds	(7,490,896)	
Bonds payable	(403,967,127)	
Deferred charges	2,634,980	
Commercial paper payable	(78,425,000)	
Compensated absences	<u>(340,196)</u>	
		(487,588,239)

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

2,567,059

Total net assets of governmental activities

\$ 1,397,555,359

See notes to the financial statements.

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended February 28, 2006

	Operations and Maintenance (General)	Special Revenue Grants	Debt Service	Capital Projects	Total 2006
REVENUES					
Taxes	\$ 54,925,527	\$ -	\$ 12,764,330	\$ -	\$ 67,689,857
Intergovernmental	-	9,756,640	-	15,410,954	25,167,594
Lease revenue	136,385	-	-	-	136,385
Earnings on investments	1,903,542	-	425,606	3,857,411	6,186,559
Miscellaneous	239,234	1,245	39,592	1,516,028	1,796,099
	<u>57,204,688</u>	<u>9,757,885</u>	<u>13,229,528</u>	<u>20,784,393</u>	<u>100,976,494</u>
EXPENDITURES					
Current operating:					
Flood control administration	50,928,577	128,491	-	104,734	51,161,802
Tax administration	440,799	-	-	-	440,799
Capital outlay	4,062,532	1,778,561	-	69,748,625	75,589,718
Debt service:					
Principal retirement	4,235,000	-	14,740,000	-	18,975,000
Interest and fiscal charges	18,302,389	-	2,183,436	-	20,485,825
	<u>77,969,297</u>	<u>1,907,052</u>	<u>16,923,436</u>	<u>69,853,359</u>	<u>166,653,144</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,764,609)</u>	<u>7,850,833</u>	<u>(3,693,908)</u>	<u>(49,068,966)</u>	<u>(65,676,650)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in (out) from/to Harris County	22,411,144	(8,058,906)	-	(3,427,347)	10,924,891
Transfers in	-	208,073	-	-	208,073
Transfers out	-	-	-	(208,073)	(208,073)
Commercial paper issued	-	-	-	51,845,000	51,845,000
Sale of capital assets	578,851	-	-	-	578,851
	<u>22,989,995</u>	<u>(7,850,833)</u>	<u>-</u>	<u>48,209,580</u>	<u>63,348,742</u>
Net changes in fund balances	2,225,386	-	(3,693,908)	(859,386)	(2,327,908)
Fund balances, beginning	75,069,723	-	18,934,166	118,501,863	212,505,752
Fund balances, ending	<u>\$ 77,295,109</u>	<u>\$ -</u>	<u>\$ 15,240,258</u>	<u>\$ 117,642,477</u>	<u>\$ 210,177,844</u>

See notes to the financial statements.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
February 28, 2006**

Net change in fund balances - total governmental funds \$ (2,327,908)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 66,714,772

Capital asset donations 11,076,996

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

Debt issued:		
Commercial paper	\$ (51,845,000)	
Repayments:		
To paying agent for bond principal	18,975,000	
Net adjustment		(32,870,000)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather as it accrues. This adjustment combines the net changes of 6 balances.

Compensated absences	(3,967)	
Amortization of debt premium	2,945,953	
Accretion of discount	(2,171,258)	
Amortization of advanced refunding difference	(83,151)	
Accrued interest on bonds	528,848	
Amortization of deferred charges	(169,459)	
Combined adjustment		1,046,966

Because some revenues will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount in the current period. (1,628,498)

The net effect of sales involving capital assets is to decrease net assets. (45,374)

Change in net assets of governmental activities \$ 41,966,954

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, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

B. IMPLEMENTATION OF NEW STANDARDS

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

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

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* ("GASB 42"), establishes standards that define capital asset impairment and specifies how various types of impairment losses will be measured, reported and disclosed. It also clarifies and establishes reporting and disclosure of all insurance recoveries. Implementation of GASB 42 did not have an impact on the District's financial statements for the year ended February 28, 2006.

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

Government-wide Statements

Government wide financial statements consist of the Statement of Net Assets and the Statement of Activities. These statements report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The District reports only governmental activities, which normally are supported by taxes and intergovernmental revenues.

The government-wide financial statements are prepared using the economic resources measurement focus

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006

and the accrual basis of accounting. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Statement of Activities demonstrates the degree to which the direct expenses of the District's programs are offset by those programs' revenues. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Program revenues are generated from flood control activities. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund-level Statements

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

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

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

GOVERNMENTAL FUNDS

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

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

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

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006**

D. BUDGETS

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

- Departmental annual budget requests are submitted by the Department or Agency Head to the County Budget Officer during the third quarter of the fiscal year for the upcoming fiscal year to begin March 1.
- The County Auditor must prepare an estimate of available resources for the upcoming fiscal year. Available resources include the unrestricted cash and investment balance at the beginning of the fiscal year plus estimated revenues for the upcoming fiscal year.
- The County Budget Officer prepares the proposed annual operating budget to be presented to Commissioners Court for their consideration. The budget represents the financial plan for the new fiscal year and includes estimated available financial resources and proposed expenditures.
- Public hearings are held on the proposed budget.
- Commissioners Court must adopt an annual operating budget by a majority vote of Commissioners Court before April 1. The adopted budget must be balanced; that is, available resources must be sufficient to support annual appropriations.
- The department is the legal level of budgetary control. Commissioners Court approval is necessary to transfer appropriations between departments. Transfers may not increase the total budget.
- Annual budgets are legally adopted for the General Fund and Debt Service Fund. Budgets for Capital Projects are established on a project basis.
- Transfers cannot exceed the original appropriation level adopted for the fund during the fiscal year.
- Appropriations lapse at year-end.
- Budgets are prepared on a cash basis (budget basis) which differs from a GAAP basis.

E. DEPOSITS AND INVESTMENTS

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

F. INTERFUND TRANSACTIONS

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

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006**

G. CAPITAL ASSETS

Capital assets include land, buildings, improvements other than buildings, equipment, construction in progress, and flood control infrastructure that are used in the District's operations and benefit more than a single fiscal year. Infrastructure assets are long-lived assets that are generally stationary in nature and can typically be preserved for a significantly greater number of years than other capital assets. Infrastructure assets of the District include bridges, flood control channels, roads, storm sewers, tunnels, and related right of way.

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

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

It is the County's policy not to capitalize interest on construction for governmental capital assets. Capital assets are depreciated in the government-wide financial statements using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	45
Equipment	3-20
Flood Control Infrastructure:	
Bridges	40
Flood control channels	25-75
Roads	20-50
Storm sewers	30-75
Tunnels	40

H. NET ASSETS AND FUND BALANCES

NET ASSETS CLASSIFICATIONS

Net assets in the government-wide financial statements are classified in three categories: 1) Net assets invested in capital assets, net of related debt, 2) Restricted net assets, and 3) Unrestricted net assets. Net assets are shown as restricted if constraints placed on use are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. The District's restricted net assets are restricted for debt service and capital projects.

RESERVATIONS AND DESIGNATIONS

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

I. COMPENSATED ABSENCES

Accumulated compensatory time, vacation and sick leave expected to be liquidated with expendable

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006

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

Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 480 sick leave hours. Unused sick leave benefits are not paid at termination. Employees with more than one year of service accrue from two to four weeks of vacation annually, depending on years of service. Unused vacation benefits lapse at calendar year-end or upon termination, except for exempt employees who may convert such benefits to compensatory time, subject to a 240 hour maximum.

Non-exempt employees earn compensatory time at one and one-half times their full pay times the excess of 40 hours per week worked. Non-exempt employees can carry forward compensatory time up to 240 hours indefinitely. Upon termination, non-exempt employees will be paid for compensatory time at their wage rate at time of termination. Exempt employees earn compensatory time at their regular rate of pay for hours worked in excess of 40 hours a week. Exempt employees can accumulate up to 240 hours of compensatory time. Upon termination, exempt employees are paid one-half of the compensatory time earned at the wage rate at time of termination.

J. USE OF ESTIMATES

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

2. DEPOSITS AND INVESTMENTS

Deposits: Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance (FDIC) is available for funds deposited at any one financial institution up to a maximum of \$100,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available.

The custodial credit risk for deposits is the risk that the District will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. At February 28, 2006, the carrying amount of the District's demand and time deposits was \$349,731 and the balance per various financial institutions was \$1,537,690. The District's deposits are not exposed to custodial credit risk since all deposits are either covered by FDIC insurance or collateralized with securities held by the District or its agent in the District's name, in accordance with the Public Funds Collateral Act.

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

The District follows the guidelines established by the Harris County Investment policy. The Harris County

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006**

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

AUTHORIZED INVESTMENTS

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

1. Obligations of the US or its agencies and instrumentalities.
2. Direct obligation of the State of Texas or its agencies and instrumentalities.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, with a stated final maturity of 10 years or less.
4. Other obligations the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of this state or the US.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated and to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent.
6. Certificates of deposit issued by a state or national bank domiciled in this state or a savings and loan association domiciled in this state that are guaranteed or insured by the FDIC or secured by authorized investments that have a market value of not less than the principal amount of the certificates.
7. Fully collateralized repurchase agreements that the County has obtained a signed master repurchase agreement with the company into which the agreement is entered, as authorized by the Public Funds Investment Act.
8. Commercial paper with a stated maturity of 270 days or fewer from the date of issuance as authorized by the Public Funds Investment Act.
9. No-load money market mutual funds regulated by the SEC, with a dollar-weighted average stated maturity of 90 days or fewer and which include in their investment objectives the maintenance of a stable new asset value of \$1 per share as authorized by the Public Funds Investment Act.
10. Guaranteed Investment Contracts as authorized by the Public Funds Investment Act.
11. Public Funds Investment Pools as authorized by the Investment Act.

Summary of Cash and Investments

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

	Governmental Activities
Cash and Cash Equivalents	\$ 16,214,814
Restricted Cash and Cash Equivalents	1,862,220
Investments	192,454,417
Total Cash & Investments	\$ 210,531,451

The table below indicates the fair value and maturity value of the District's investments as of February 28,

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2006**

2006, summarized by security type. Also demonstrated are the percentage of total portfolio and the weighted average maturity in years for each summarized security type.

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
<i>US Agency Notes</i>					
FFCB	\$ 5,926,141	2.82%	\$ 6,000,000	0.020	AAA/Aaa
FHLB	75,671,656	36.00%	76,500,000	0.281	AAA/Aaa
FHLMC	42,715,457	20.32%	43,485,000	0.126	AAA/Aaa
FNMA	33,288,636	15.84%	33,800,000	0.164	AAA/Aaa
<i>Commercial Paper</i>					
AGFC	12,752,408	6.07%	12,880,000	0.012	A-1/P-1
AMEX	1,612,671	0.77%	1,620,000	0.001	A-1/P-1
FCAR	16,931,440	8.06%	17,040,000	0.010	A-1+/P-1
GECC	5,253,385	2.50%	5,300,000	0.004	A-1+/P-1
<i>Local Governments</i>					
Dover, Delaware Ele	978,694	0.47%	1,000,000	0.006	AAA/Aaa
Indiana Bd Bk	1,627,581	0.77%	1,640,000	0.003	AAA/Aaa
Los Angeles, California	3,961,478	1.88%	4,000,000	0.006	AAA/Aaa
Oregon St Loc	669,025	0.32%	680,000	0.004	AAA/Aaa
Philadelphia, Pennsylvania	1,145,367	0.54%	1,150,000	0.002	AAA/Aaa
San Antonio, Texas	487,699	0.23%	500,000	0.002	AAA/Aaa
State of Texas	2,788,428	1.33%	2,860,000	0.016	AA/Aa2
<i>Money Market Funds</i>					
AIM STIT Treasury Portfolio	2,956,697	1.41%	2,956,697	N/A	AAAm/Aaa
Fidelity Institutional - Tax Exempt	1,414,957	0.67%	1,414,957	N/A	AAAm/Aaa
Total Investments	210,181,720	100.00%	\$ 212,826,654	0.658	
<i>Demand and Time Deposits</i>	349,731				
Total Cash & Investments	\$ 210,531,451				

RISK DISCLOSURES

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

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

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

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

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

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

FUND INVESTMENT CONSIDERATIONS

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

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Fund Type	Investment Strategy	Avg Investment Duration Per Policy (Days)	Maturity Amount	Average Remaining Days To Maturity
Pooled Investments	Matching	720	\$ 104,530,000	246
Debt Service Funds	Matching	270	14,525,000	177
Capital Project Funds	Matching	1,080	89,400,000	309
Money Market Mutual Funds	N/A	N/A	4,371,654	N/A
			<u>\$ 212,826,654</u>	

3. PROPERTY TAXES

Property taxes for the 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 District is permitted by law to levy a tax rate up to \$.30 per \$100 of taxable valuation. There is no limitation on the tax rate which may be set for debt service within the \$.30/\$100 valuation. The tax rate for maintenance is limited to the rate as may from time to time be approved by the voters of the District. The maximum tax rate for maintenance is \$.15 per \$100 of taxable valuation. The County is responsible for setting the tax rate for the District. The County adopted the following tax rates on behalf of the District for the 2005 tax year, per \$100 of taxable valuation:

	Operations and Maintenance (General)	Debt Service	Total
Flood Control District	\$0.02733	\$0.00589	\$0.03322

Property tax receivables of \$2,566,585 as of February 28, 2006 are reported net of an allowance for uncollectible taxes of \$20,063,912 and includes penalties and interest of \$8,967,390.

4. INTERFUND TRANSFERS

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

	Transfers In:
	Grants Fund
Transfers Out:	
Capital Projects Fund	<u>\$ 208,073</u>
TOTAL	<u>\$ 208,073</u>

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

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5. CAPITAL ASSETS

Capital assets transactions are summarized as follows:

	Balance March 1, 2005	Additions	Disposals	Transfers	Balance February 28, 2006
Governmental Activities:					
Land	\$ 1,345,713,543	\$ 26,378,770	\$ (25,000)	\$ -	\$ 1,372,067,313
Construction in Progress	101,517,436	59,652,080	-	(51,279,022)	109,890,494
Total capital assets not depreciated	<u>1,447,230,979</u>	<u>86,030,850</u>	<u>(25,000)</u>	<u>(51,279,022)</u>	<u>1,481,957,807</u>
Buildings	3,330,706	-	-	-	3,330,706
Equipment	7,117,902	668,437	(150,952)	-	7,635,387
Flood Control Projects	275,006,250	-	-	51,279,022	326,285,272
	<u>285,454,858</u>	<u>668,437</u>	<u>(150,952)</u>	<u>51,279,022</u>	<u>337,251,365</u>
Less accumulated depreciation for:					
Buildings	(1,254,079)	(72,380)	-	-	(1,326,459)
Equipment	(3,500,999)	(965,365)	130,578	-	(4,335,786)
Flood Control Projects	(133,278,458)	(7,869,774)	-	-	(141,148,232)
	<u>(138,033,536)</u>	<u>(8,907,519)</u>	<u>130,578</u>	<u>-</u>	<u>(146,810,477)</u>
Total capital assets being depreciated, net	<u>147,421,322</u>	<u>(8,239,082)</u>	<u>(20,374)</u>	<u>51,279,022</u>	<u>190,440,888</u>
Governmental activities capital assets, net	<u>\$ 1,594,652,301</u>	<u>\$ 77,791,768</u>	<u>\$ (45,374)</u>	<u>\$ -</u>	<u>\$ 1,672,398,695</u>

Depreciation expense was charged to the Flood Control function of the District for \$8,907,519.

6. LONG-TERM DEBT

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

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

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	Outstanding March 1, 2005	Increase	Decrease	Outstanding February 28, 2006	Amount Due Within One Year
Governmental Activities:					
Total Bonds Payable - Principal	\$ 385,229,985	\$ -	\$ (18,975,000)	\$ 366,254,985	\$ 17,070,000
Unamortized Premium, Series 1993 (restated)	3,842,149	-	(829,196)	3,012,953	-
Unamortized Premium, Series 2002	647,605	-	(138,655)	508,950	-
Unamortized Premium, Series 2003A	689,856	-	(480,092)	209,764	-
Unamortized Premium, Series 2003B	9,225,619	-	(412,658)	8,812,961	-
Unamortized Premium, Series 2004A	10,766,130	-	(1,085,352)	9,680,778	-
Accretion of Discount - Compound					
Interest Bonds:					
Series 1993	13,738,745	2,171,258	-	15,910,003	-
Bond Refunding Loss, Series 2002	(153,173)	-	49,773	(103,400)	-
Bond Refunding Loss, Series 2003A	(353,245)	-	33,378	(319,867)	-
Total Bonds Payable (restated)	423,633,671	2,171,258	(21,837,802)	403,967,127	17,070,000
Commercial Paper Payable	26,580,000	51,845,000	-	78,425,000	7,129,545
Compensatory Time Payable	336,229	272,951	(268,984)	340,196	265,353
TOTAL (restated)	<u>\$ 450,549,900</u>	<u>\$ 54,289,209</u>	<u>\$ (22,106,786)</u>	<u>\$ 482,732,323</u>	<u>\$ 24,464,898</u>

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

A. OUTSTANDING BONDED DEBT

	Interest Rates (%)	Date Series		Balance February 28, 2006
		Issued	Matures	
Refunding Series 1993 - CAB	5.40-5.60	1993	2011	\$ 6,474,985
Refunding Series 2002	3.00-5.50	2002	2014	9,985,000
Refunding Series 2003-A	3.00-6.00	2003	2015	22,400,000
Refunding Series 2003-B	5.00-5.25	2003	2023	191,765,000
Refunding Series 2004-B	3.00-5.25	2004	2024	135,630,000
TOTAL				<u>\$ 366,254,985</u>

B. DEBT SERVICE REQUIREMENTS

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

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<u>Fiscal year</u>	<u>Principal At 2/28/2006</u>	<u>Capital Appreciation Bonds</u>	<u>Principal Value At Maturity</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 17,070,000	\$ -	\$ 17,070,000	\$ 18,057,525	\$ 35,127,525
2008	8,755,287	6,729,007	15,484,294	25,682,457	41,166,751
2009	7,908,864	4,145,284	12,054,148	22,937,380	34,991,528
2010	8,667,889	2,883,634	11,551,523	21,462,255	33,013,778
2011	8,318,921	1,589,903	9,908,824	19,409,711	29,318,535
2012-2016	43,904,024	562,175	44,466,199	77,561,841	122,028,040
2017-2021	118,350,000	-	118,350,000	62,721,839	181,071,839
2022-2026	153,280,000	-	153,280,000	16,897,731	170,177,731
	<u>\$ 366,254,985</u>	<u>\$ 15,910,003</u>	<u>\$ 382,164,988</u>	<u>\$ 264,730,739</u>	<u>\$ 646,895,727</u>

C. UNISSUED AUTHORIZED BONDS

As of February 28, 2006, the District has voter authorization to issue \$95,000,000 of additional property tax bonds.

D. REFUNDING OF DEBT

The Flood Control District did not issue any refunding debt in the current year.

E. COMMERCIAL PAPER

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

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

The County's commitment under the Flood Contract is the payment to the Flood Control District of amounts necessary for the principal and/or interest due; the fees and expenditures of the issuing and paying agent, the dealer, and the credit provider; amounts related to any special or contingency funds or accounts for the notes; and any amounts to restore deficiencies in such funds or accounts. The County's payment obligation is secured by a levy and pledge of a portion of the County's ad valorem taxes which extends until all obligations under the Series F Notes, including any obligations to refund the notes, are no longer outstanding. During the term of the Flood Contract, the County is required to levy taxes computed at a tax rate sufficient to provide the funds required to make the annual payments and to provide and maintain a sinking fund adequate for such amounts as they become due. Commissioners Court issued an order whereby the sinking fund may never be less than 2% of the County's outstanding indebtedness under the Flood Contract at the time of the tax levy. In setting the tax rate, the County may consider all sources of funding lawfully available or that are to be available including the credit agreement entered into for the Series F Notes, discussed below. Because of the timing of adoption of tax

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rates, the County has not yet been required to set a tax rate as of February 28, 2006. However, the County has allocated other available funds sufficient to pay the annual amounts due under the Flood Contract prior to the required first adoption of the tax rate. Based on the County's outstanding indebtedness as of February 28, 2006 (exclusive of Flood Control District debt), this amount required under the 2% limitation is estimated to be \$1,568,500.

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

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

Assuming that as of February 28, 2006, loans existed for the full \$78,425,000 principal outstanding on Series F Notes, the following table is representative of the debt service requirements based on the average interest rate for the quarter ending February 28, 2006 over the next four years:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,129,545	\$ 5,963,568	\$ 13,093,113
2008	28,518,180	9,216,423	37,734,603
2009	28,518,180	4,879,283	33,397,463
2010	14,259,095	813,214	15,072,309
TOTAL	\$ 78,425,000	\$ 20,872,488	\$ 99,297,488

F. ARBITRAGE REBATE LIABILITY

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

7. RETIREMENT PLAN

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Plan Description

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

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

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

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

Funding Policy

The District has elected the annually determined contribution rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the District based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually. The District contributed using actuarially determined rate of 10.05% for the months of the calendar year in 2005, and 9.81% for the months of the calendar year in 2006.

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

Annual Pension Cost

For the County’s accounting year ending February 28, 2006, the annual pension cost for the TCDRS plan for

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its employees, including the District, was \$60,990,625, and the actual contributions for the District were \$1,546,672.

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

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/03	12/31/04	12/31/05
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period in years	20	20	20
Asset Valuation Method	Long-term appreciation with adjustments	Long-term appreciation with adjustments	Long-term appreciation with adjustments
Actuarial Assumption			
Investment return (1)	8.0 %	8.0 %	8.0 %
Projected Salary Increases (1)	5.5 %	5.5 %	5.3 %
Inflation	3.5 %	3.5 %	3.5 %
Cost of Living Adjustments	0.0%	0.0%	0.0%
(1) Includes inflation at the stated rate.			

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

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

8. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits described herein, the District provides certain retirement health care and life insurance benefits for retired employees. In accordance with the Personnel Regulations adopted by Commissioners Court, all District employees may become eligible for these benefits after meeting the service and retirement age requirements of the District's retirement plan. These requirements, which were modified effective January 1, 1996, require 30 years of service, or 8 years of service and 60 years of age, or years of

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service plus age equal to 75 or more. The District recognizes expenditures for retirement benefits as incurred, which during fiscal year 2006 totaled \$1,010,128. Presently, 171 retirees qualified for retirement benefits.

9. COMMITMENTS AND CONTINGENT LIABILITIES

LITIGATION

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

CONSTRUCTION COMMITMENTS

The District has commitments under various contracts in connection with the construction of flood control facilities, buildings, and projects of \$60,223,934.

10. RISK MANAGEMENT

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

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

The County has reinsurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the fiscal year ended February 28, 2006 is \$850,000 per occurrence. During the last three fiscal years, no claims incurred exceeded the insurance coverage for the County. Through the County, the District provides medical, dental, vision, and basic life and disability insurance to eligible employees and retirees. The District pays the full cost of health benefits for eligible employees and retirees and 50% of the cost of dependent premiums. Disability insurance will pay up to 50% of an employee's salary for two years with an employee option to extend the benefits period to age 65 and increase the percentage to 60%.

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

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

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11. RESTATEMENT

In connection with the preparation of the February 28, 2006 financial statements, the District has increased governmental net assets as of March 1, 2005 in the amount of \$660,353.

	As Restated	As Previously Reported
Invested in capital assets, net of related debt	\$ 1,271,462,345	\$ 1,270,801,992
Total net assets	\$ 1,355,588,405	\$ 1,354,928,052

This restatement is the result of an overstatement of bond premium which was net of amortization.

12. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS
OPERATIONS AND MAINTENANCE (GENERAL) FUND
For The Year Ended February 28, 2006**

	OPERATIONS AND MAINTENANCE (GENERAL) FUND			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES AND OTHER FINANCING SOURCES				
Beginning Cash and Investments:				
Flood Control General	\$ 74,020,665	\$ 74,020,665	\$ 76,324,169	\$ 2,303,504
FC Ser F Comm Paper	1,674,441	1,674,441	1,676,388	1,947
Total Beginning Cash and Investments	<u>75,695,106</u>	<u>75,695,106</u>	<u>78,000,557</u>	<u>2,305,451</u>
Interest:				
Flood Control General	1,863,432	1,863,432	1,703,011	(160,421)
FC Ser F Comm Paper	33,619	33,619	24,234	(9,385)
FC Refunding Series 2003 B Debt Service Fund	-	170	1,752	1,582
FC Refunding Series 2004 A Debt Service Fund	-	29	3,636	3,607
Total Interest	<u>1,897,051</u>	<u>1,897,250</u>	<u>1,732,633</u>	<u>(164,617)</u>
Taxes:				
Flood Control General	49,054,295	49,054,295	53,032,416	3,978,121
Miscellaneous:				
Flood Control General	281,800	281,800	215,491	(66,309)
Other - Sale of Real Property:				
Flood Control General	-	-	691,572	691,572
Other Transfers In:				
FC Ser F Comm Paper	440,000	440,000	-	(440,000)
FC Refunding Series 2003 B Debt Service Fund	-	9,784,600	9,780,000	(4,600)
FC Refunding Series 2004 A Debt Service Fund	-	11,362,376	12,893,482	1,531,106
Total Other Transfers In	<u>440,000</u>	<u>21,586,976</u>	<u>22,673,482</u>	<u>1,086,506</u>
Total Revenue and Other Financing Sources	<u>127,368,252</u>	<u>148,515,427</u>	<u>156,346,151</u>	<u>7,830,724</u>
EXPENDITURES AND OTHER FINANCING USES				
Flood Control General	125,220,192	125,220,192	55,267,258	69,952,934
FC Ser F Comm Paper	2,148,060	2,148,060	1,390,414	757,646
FC Refunding Series 2003B	9,791,844	9,791,844	9,784,600	7,244
FC Contract Tax 2004A	11,370,095	11,370,095	11,362,376	7,719
Total Expenditures and Other Financing Uses	<u>148,530,191</u>	<u>148,530,191</u>	<u>77,804,648</u>	<u>70,725,543</u>
Net changes in Fund Balance	<u>\$ (21,161,939)</u>	<u>\$ (14,764)</u>	<u>\$ 78,541,503</u>	<u>\$ 78,556,267</u>

See notes to required supplementary information.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
February 28, 2006**

RECONCILIATION OF ACCOUNTING BASIS

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

	General Fund
REVENUES AND OTHER FINANCING SOURCES	
Cash (budgetary) basis	\$ 156,346,151
Accrued in 2005, received in 2006	207,943,337
Accrued in 2006, to be received in 2007	<u>(284,094,805)</u>
Revenues on modified accrual (GAAP) basis	<u>80,194,683</u>
EXPENDITURES AND OTHER FINANCING USES	
Cash (budgetary) basis	77,804,648
Incurred during 2005, paid in 2006	52,515,330
Incurred during 2006, payable in 2007	<u>(52,350,681)</u>
Expenditures on modified accrual (GAAP) basis	<u>77,969,297</u>
Net changes in Fund Balance	<u><u>\$ 2,225,386</u></u>

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

SUPPLEMENTAL SCHEDULES

&

OTHER INFORMATION

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF SERVICES AND RATES
For Fiscal Year Ended February 28, 2006
Schedule 1
(Unaudited)**

1. Services Provided by the District:

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

2. Retail Service Providers: None

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

Gallons pumped into system: N/A

Gallons billed to customers: N/A

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

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF SERVICES AND RATES
For Fiscal Year Ended February 28, 2006
Schedule 1
(Unaudited)**

5. Location of District:

County in which district is located: Harris County

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

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

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

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

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

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

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

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF GENERAL FUND EXPENDITURES
For The Year Ended February 28, 2006
Schedule 2
(Unaudited)**

Personnel Expenditures (including benefits)	\$ 21,409,097
Professional Fees and Contractual Services	25,681,775
Utilities	532,355
Repairs and Maintenance	609,004
Capital Outlay	4,062,532
Other Expenditures	<u>25,674,534</u>
TOTAL EXPENDITURES & TRANSFERS OUT	<u><u>\$ 77,969,297</u></u>

Number of persons employed by the District: 320 Full-Time

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF TEMPORARY INVESTMENTS
For The Year Ended February 28, 2006
Schedule 3
(Unaudited)**

No temporary investments outstanding at fiscal year end

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF TAXES LEVIED AND RECEIVABLE
For The Year Ended February 28, 2006**

**Schedule 4
(Unaudited)**

(amounts in thousands)

	Operations and Maintenance Taxes	Debt Service Taxes
Taxes receivable, beginning of year	\$ 8,081,644	\$ 4,814,574
2005 Original Tax Levy	53,460,059	11,521,396
Total to be accounted for	<u>61,541,703</u>	<u>16,335,970</u>
Tax collections:		
Current year	(48,256,443)	(10,399,956)
Prior years	(4,101,325)	(1,456,842)
Total collections	<u>(52,357,768)</u>	<u>(11,856,798)</u>
Taxes receivable, end of year	<u>\$ 9,183,935</u>	<u>\$ 4,479,172</u>

Taxes receivable, by years		
1996 and prior	\$ 1,324,880	\$ 1,706,474
1997	296,624	257,607
1998	347,887	264,375
1999	428,015	267,944
2000	442,861	240,461
2001	407,350	272,019
2002	518,336	240,020
2003	654,370	261,858
2004	672,657	86,768
2005	4,090,955	881,646
Taxes receivable, end of year	<u>\$ 9,183,935</u>	<u>\$ 4,479,172</u>

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Property valuations:				
Real property	\$ 230,050,598	\$ 199,378,304	\$ 185,632,048	\$ 177,554,625
Personal property	37,276,435	32,119,652	30,601,495	30,129,999
Less exemptions	(61,017,743)	(37,273,944)	(34,822,427)	(31,764,643)
Total property valuations	<u>\$ 206,309,290</u>	<u>\$ 194,224,012</u>	<u>\$ 181,411,116</u>	<u>\$ 175,919,981</u>

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
For The Year Ended February 28, 2006
Schedule 5
(Unaudited)

Due During Fiscal Years Ending	Series 2003-B		
	Principal Due 10/01	Interest Due 04/01, 10/01	Total
2007	\$ -	\$ 9,784,600	\$ 9,784,600
2008	-	9,784,600	9,784,600
2009	-	9,784,600	9,784,600
2010	-	9,784,600	9,784,600
2011	-	9,784,600	9,784,600
2012	-	9,784,600	9,784,600
2013	-	9,784,600	9,784,600
2014	-	9,784,600	9,784,600
2015	-	9,784,600	9,784,600
2016	-	9,784,600	9,784,600
2017	-	9,784,600	9,784,600
2018	-	9,784,600	9,784,600
2019	14,985,000	9,784,600	24,769,600
2020	30,965,000	8,997,888	39,962,888
2021	32,590,000	7,372,225	39,962,225
2022	35,915,000	5,661,250	41,576,250
2023	37,720,000	3,865,500	41,585,500
2024	39,590,000	1,979,500	41,569,500
	<u>\$ 191,765,000</u>	<u>\$ 155,076,163</u>	<u>\$ 346,841,163</u>

(Continued)

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COMMERCIAL PAPER DEBT SERVICE REQUIREMENTS - BY YEARS
For The Year Ended February 28, 2006
Schedule 5a
(Unaudited)**

Commercial Paper Series F			
Due During Fiscal Years Ending	Principal	Interest	Total
2007	\$ 7,129,545	\$ 5,963,568	\$ 13,093,113
2008	28,518,180	9,216,423	37,734,603
2009	28,518,180	4,879,283	33,397,463
2010	14,259,095	813,214	15,072,309
TOTAL	\$ 78,425,000	\$ 20,872,488	\$ 99,297,488

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF CHANGES IN LONG-TERM DEBT
For The Year Ended February 28, 2006
Schedule 6
(Unaudited)**

	Bond Issues					Total
	Series 1993	Series 2002	Series 2003-A	Series 2003-B	Series 2004-A	
Interest Rate	4.60 - 5.60	3.00 - 5.50	3.00 - 6.00	5.00 - 5.25	3.00 - 5.25	
Dates Interest Payable	04/01;10/01	04/01;10/01	04/01;10/01	04/01;10/01	04/01;10/01	
Maturity Dates	10/1/2015	10/1/2014	10/1/2015	10/1/2023	10/1/2024	
Bonds Outstanding at March 1, 2005	\$ 6,474,985	\$ 16,080,000	\$ 31,045,000	\$ 191,765,000	\$ 139,865,000	\$ 385,229,985
Bonds Sold During the Current Year: 2005-2006	-	-	-	-	-	-
Retirements During the Current Year: 2005-2006	-	6,095,000	8,645,000	-	4,235,000	18,975,000
Bonds Outstanding at February 28, 2006	<u>\$ 6,474,985</u>	<u>\$ 9,985,000</u>	<u>\$ 22,400,000</u>	<u>\$ 191,765,000</u>	<u>\$ 135,630,000</u>	<u>\$ 366,254,985</u>
Interest Paid During the Current Year - 2005-2006	<u>\$ -</u>	<u>\$ 820,355</u>	<u>\$ 1,363,081</u>	<u>\$ 9,784,600</u>	<u>\$ 7,127,376</u>	<u>\$ 19,095,412</u>

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

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

Debt Service Fund Cash and Investments balances as of February 28, 2006: \$ 14,332,194

Average Annual Debt Service Payment (Principal & Interest) for remaining term of all debt: \$ 33,985,724

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
COMPARATIVE SCHEDULE OF REVENUE AND EXPENDITURES-GENERAL FUND AND DEBT SERVICE FUNDS-FIVE YEARS ENDED
For The Year Ended February 28, 2006
Schedule 7
(Unaudited)

General Fund:	Amounts					Percent of Fund Total Revenues				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Revenues:										
Taxes	\$ 54,925,527	\$ 49,401,450	\$ 54,198,331	\$ 49,590,215	\$ 48,240,512	96.0%	97.4%	97.3%	96.9%	94.7%
Lease Revenue	136,385	124,397	42	27	261,309	0.2%	0.2%	0.0%	0.0%	0.5%
Intergovernmental	-	-	-	190,416	124	0.0%	0.0%	0.0%	0.4%	0.0%
Interest	1,903,542	751,786	934,438	894,054	2,027,238	3.3%	1.5%	1.7%	1.7%	4.0%
Miscellaneous	239,234	431,503	543,532	508,866	432,924	0.4%	0.9%	1.0%	1.0%	0.8%
Total Revenues	\$ 57,204,688	\$ 50,709,136	\$ 55,676,343	\$ 51,183,578	\$ 50,962,107	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditures:										
Current Operating:										
Flood Control	\$ 50,928,577	\$ 46,439,981	\$ 47,419,771	\$ 13,177,778	\$ 44,533,695	89.0%	25.8%	85.2%	25.7%	87.4%
Tax Administration	440,799	574,083	558,583	579,853	738,144	0.8%	1.1%	1.0%	1.1%	1.4%
Capital Outlay	4,062,532	9,934,220	5,549,373	31,385,863	-	7.1%	61.3%	10.0%	61.3%	0.0%
Debt Service	22,537,389	8,663,129	1,768,040	-	-	39.4%	17.1%	3.2%	0.0%	0.0%
Total Expenditures	\$ 77,969,297	\$ 65,611,413	\$ 55,295,767	\$ 45,143,494	\$ 45,271,839	136.3%	105.3%	99.3%	88.2%	88.8%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (20,764,609)	\$ (14,902,277)	\$ 380,576	\$ 6,040,084	\$ 5,690,268	-36.3%	-29.4%	0.7%	11.8%	11.2%
Debt Service Fund:										
Revenues:										
Taxes	\$ 12,764,330	\$ 15,613,192	\$ 22,264,879	\$ 23,596,948	\$ 31,947,788	96.5%	98.6%	99.1%	98.2%	96.8%
Interest	425,606	212,489	211,559	442,964	1,048,526	3.3%	1.3%	0.9%	1.8%	3.2%
Miscellaneous	39,592	10,548	-	200	-	0.3%	0.1%	0.0%	0.0%	0.0%
Total Revenues	\$ 13,229,528	\$ 15,836,229	\$ 22,476,438	\$ 24,039,912	\$ 32,996,314	99.8%	99.9%	100.0%	100.0%	100.0%
Expenditures:										
Debt Service										
Principal Retirement	\$ 14,740,000	\$ 18,200,000	\$ 19,975,000	\$ 15,979,644	\$ 20,244,282	111.4%	114.9%	88.9%	66.5%	61.4%
Interest and Fiscal Charges	2,183,436	3,181,054	4,265,483	18,635,680	17,148,324	16.5%	20.1%	19.0%	77.5%	52.0%
Total Expenditures	\$ 16,923,436	\$ 21,381,054	\$ 24,240,483	\$ 34,615,324	\$ 37,392,606	127.9%	135.0%	107.8%	144.0%	113.3%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (3,693,908)	\$ (5,544,825)	\$ (1,764,045)	\$ (10,575,412)	\$ (4,396,292)	-28.1%	-35.1%	-7.8%	-44.0%	-13.3%

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
For The Year Ended February 28, 2006
Schedule 8
(Unaudited)

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

District Business Telephone Number: (713) 684-4000

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees Feb 28, 2006	Expense Reimbursements Feb 28, 2006	Title at Year End	Resident of District
Commissioners' Court acts as Board of Director for District					
Judge Robert Eckels 1001 Preston, Suite 911 Houston Texas 77002	(Elected) 01/03 - 12/06	N/A	N/A	County Judge	Yes
El Franco Lee 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/05 - 12/08	N/A	N/A	Commissioner	Yes
Sylvia R. Garcia 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/03 - 12/06	N/A	N/A	Commissioner	Yes
Steve Radack 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/05 - 12/08	N/A	N/A	Commissioner	Yes
Jerry Eversole 1001 Preston, 9th Fl Houston Texas 77002	(Elected) 01/03 - 12/06	N/A	N/A	Commissioner	Yes

Key Personnel:

HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
For The Year Ended February 28, 2006
Schedule 8
(Unaudited)

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees Feb 28, 2006	Expense Reimbursements Feb 28, 2006	Title at Year End	Resident of District
Michael Stafford 1019 Congress 15th Fl Houston Texas 77002	(Elected) 01/05 - 12/08	N/A	N/A	County Attorney	Yes
Paul Bettencourt 1001 Preston, 1th Fl Houston Texas 77002	(Elected) 01/05 - 12/08	N/A	N/A	Tax Assessor & Collector of Taxes	Yes
Edwin Harrison 1001 Preston, Rm 630 Houston, Texas 77002	(Appointed) 01/03	N/A	N/A	Investment Officer & Debt Manager County Employee	Yes
County Auditor					
Barbara J. Schott 1001 Preston, 8th Fl Houston Texas 77002	(Appointed) 03/03	N/A	N/A	County Auditor	Yes
Consultant					
Deloitte & Touche LLP 333 Clay St. Suite 2300 Houston, Texas 77002	3/21/2001	N/A	N/A	Independent Auditor	N/A

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

Full-time Equivalent Employees as of February 28/29

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Administration of Justice	6,750	6,821	6,931	7,820	8,054	8,177	8,115	8,450	8,554	8,818
Parks	*	*	*	*	*	*	*	*	*	754
County Administration	2,415	2,366	2,447	2,612	2,758	2,817	2,627	2,720	2,787	2,885
Health and Human Services	*	*	*	*	*	*	*	*	*	1,764
Flood Control	*	*	*	276	270	277	289	331	342	320
Tax Administration	474	507	505	458	460	468	450	465	442	442
Roads and Bridges	1,000	1,017	1,078	677	716	736	752	817	837	857
Other *	2,379	2,472	2,529	1,489	1,613	1,742	2,050	2,287	2,441	0

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

Note: As of February 28, 2006, it is estimated that approximately 2,447 of the County's employees were members of various labor organizations, some of which are unions affiliated with the AFL-CIO. The County does not maintain collective bargaining agreements with any unions.

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF OPERATING FUNDS BUDGET FOR THE DISTRICT'S FISCAL YEAR 2006-2007
Schedule 10
(Unaudited)**

On March 7, 2006 the Commissioners Court adopted the budget for the District for the Fiscal Year 2006-2007. The following is a summary the Fiscal Year 2006-2007 Budget for the District's Current Operating Funds:

Cash Balance as of March 1, 2006	\$ 76,260,911
Estimated Revenues:	
Ad Valorem Taxes	57,281,828
Lease Revenues	145,000
Reimbursements and Refunds	4,800
Interest	2,837,625
Total Cash and Estimated Revenues	<u>\$ 136,530,164</u>
Appropriations:	
Current Operating Expenses	\$ 132,846,282
Capital Outlay	3,683,882
Total Appropriations	<u>\$ 136,530,164</u>

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

(amounts in thousands)

**Schedule 11
(Unaudited)**

Taxpayers	2006			1997		
	2005 Taxable Valuations (a)	Rank	Percentage of Total 2005 Taxable Valuation (b)	1996 Taxable Valuations (a)	Rank	Percentage of Total 1996 Taxable Valuation (c)
Exxon Mobil Corporation	\$ 3,157,665	1	1.53	\$ 2,720,000	1	2.26
Centerpoint Energy, Inc.	2,604,445	2	1.26	-		0.00
Shell Oil Company	1,945,346	3	0.94	1,010,000	5	0.84
Lyondell Chemical	1,292,657	4	0.63	823,000	7	0.69
Southwestern Bell Telephone (SBC)	1,058,278	5	0.51	1,600,000	3	1.33
Equistar Chemicals Limited Partnership	1,055,374	6	0.51	-		0.00
Crescent Real Estate	966,916	7	0.47	-		0.00
Chevron Phillips Chemical Company	935,750	8	0.45	683,000	9	0.57
Hines Interests Ltd Partnership	854,380	9	0.41	1,020,000	4	0.85
Hewlett Packard Company	592,359	10	0.29	-		0.00
Rohm & Haas Co.	499,167	11	0.24	434,000	15	0.36
Anheuser Busch Inc.	473,966	12	0.23	-		0.00
Trizechahn	415,503	13	0.20	-		0.00
Calpine	405,130	14	0.20	-		0.00
Oxy Vinlys LP	399,223	15	0.19	-		0.00
Houston Lighting and Power Company	-		0.00	2,160,000	2	1.80
Compaq Computer Corporation	-		0.00	898,000	6	0.75
Quantum Chemical Plant	-		0.00	773,000	8	0.64
Arco Chemical Company	-		0.00	550,000	10	0.46
Hoechst Celanese Chemical	-		0.00	481,000	11	0.40
Phillips Petroleum Company	-		0.00	480,000	12	0.40
Occidental Chemical Corporation	-		0.00	455,000	13	0.38
Lyondell-Citgo Refining Co.	-		0.00	450,000	14	0.37
Total	<u>\$ 16,656,159</u>		<u>8.07%</u>	<u>\$ 14,537,000</u>		<u>12.10%</u>

Source: Harris County Appraisal District.

- (a) Amounts shown for these taxpayers do not include taxable valuations, which may be substantial, attributable to certain subsidiaries and affiliates which are not grouped on the tax rolls with the taxpayers shown.
- (b) Based on the District's total taxable value as of January 29, 2006 in the amount of \$206,309,290.
- (c) Based on the District's total taxable value as of February 1, 1997 in the amount of \$120,113,229.

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

The following table sets forth the District's ad valorem tax debt outstanding, as of the end of the Fiscal years 1996-97 through 2005-06.

Fiscal Year	District's Debt Outstanding (a) (thousands)	Taxable Value (b) (thousands)	Outstanding as a Percentage of Taxable Value	Estimated Population (c)	Debt Outstanding Per Capita
1997	\$ 236,312	\$ 120,113,229	0.20%	3,127,000	76
1998	205,812	124,232,634	0.17	3,158,095	65
1999	173,962	130,390,777	0.13	3,206,063	54
2000	151,409	140,969,904	0.11	3,250,404	47
2001	129,239	154,054,104	0.08	3,400,578	38
2002	108,995	167,623,002	0.07	3,460,589	31
2003	92,090	176,174,470	0.05	3,557,055	26
2004	71,800	185,113,324	0.04	3,596,086	20
2005	53,600	194,224,012	0.03	3,644,285	15
2006	38,860	206,309,290	0.02	3,693,050	11

- (a) Includes debt paid for by the District's ad valorem tax revenues.
- (b) Taxable values are net of exemptions and abatements. Property is assessed at 100% of appraised value.
- (c) Source: Bureau of the Census.

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

February 28, 2006

Schedule 13

(Unaudited)

	Percentage Applicable To Name of Government	Net Debt (Thousands)
County-Wide Jurisdiction:		
Harris County (2/28/06) (a)	100.00%	\$ 2,047,314
Harris County Flood Control District (2/28/06)	100.00	329,765
Port of Houston Authority (12/31/05)	100.00	339,221
Total County-Wide Direct Debt		<u>2,716,300</u>
Cities:		
Baytown (9/30/05)	80.75	\$ 54,319
Bellaire (9/30/05)	100.00	45,515
Bunker Hill Village (1/16/06)	100.00	17,044
Deer Park (9/30/05)	100.00	27,671
Friendswood (9/30/05)	100.00	17,131
Houston (6/30/05)	99.36	2,260,437
Jacinto City (09/30/05)	100.00	6,734
Jersey Village (9/30/05)	100.00	17,197
Katy (12/31/05)	69.19	9,254
La Porte (9/30/05)	100.00	15,621
League City (9/30/05)	5.52	59,224
Missouri City (06/30/05)	8.33	33,720
Pasadena (01/25/06)	100.00	124,159
Pearland (9/30/05)	6.16	131,235
Piney Point Village (12/31/05)	100.00	5,942
Seabrook (09/30/05)	100.00	6,766
South Houston (9/30/05)	100.00	8,178
Tomball (9/30/05)	100.00	18,889
Webster (9/30/05)	100.00	22,195
West University Place (12/31/05)	100.00	70,908
Other Cities (b)	100.00	7,911
Sub-Total Cities		<u>2,960,050</u>
School Districts and Junior Colleges:		
Aldine (12/31/05)	100.00	211,763
Alief (8/31/05)	100.00	259,413
Channelview (8/31/05)	100.00	55,472
Clear Creek (8/31/05)	80.62	864,135
Crosby (8/31/05)	100.00	77,076
Cypress-Fairbanks (2/28/06)	100.00	918,056
Deer Park (8/31/05)	100.00	98,322
Galena Park (8/31/05)	100.00	196,163
Goose Creek (1/15/06)	80.04	206,493
Houston (6/30/05)	100.00	1,946,777
Huffman (8/31/05)	100.00	64,423
Humble (6/30/05)	100.00	322,055
Katy (8/31/05)	88.64	742,383
Klein (8/31/05)	100.00	266,037
La Porte (8/31/05)	100.00	121,127
North Forest (8/31/05)	100.00	71,561
North Harris Montgomery Community College (8/31/05)	78.67	218,314
Pasadena (8/31/05)	100.00	566,370
Pearland (8/31/05)	2.25	246,570
San Jacinto Junior College (2/28/06)	100.00	68,832
Sheldon (8/31/05)	100.00	69,475
Spring (6/30/05)	100.00	769,275
Spring Branch (6/30/05)	100.00	382,265
Tomball (8/31/05)	88.02	144,282
Waller (1/27/06)	31.68	83,110
Other Schools (c)	100.00	20,381
Sub-Total School Districts and Junior Colleges		<u>8,990,130</u>
Utility Districts (d)	100.00	3,542,242
Total Overlapping Debt		<u>15,492,422</u>
Total Direct and Overlapping Debt (Estimated \$4,931 Per Capita) (e)		<u>\$ 18,208,722</u>

(a) Includes all Tax Bonds.

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

(c) Aggregate net debt of 2 schools, each of which had a net debt of less than \$20,000,000.

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

(e) Census Bureau population estimated at 3,693,050. Source: Bureau of the Census.

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

LAST TEN FISCAL YEARS

Schedule 14

(Unaudited)

(amounts in thousands)

Fiscal Year	Real Property	Personal Property	Less Exemptions (a)	Total Taxable Assessed Value	M&O Tax Rate	Debt Service Tax Rate	Total County Tax Rate
1997	\$114,810,418	\$ 23,776,930	\$ 18,461,507	\$ 120,125,841	0.35456	0.07312	0.42768
1998	118,033,506	24,100,180	17,850,666	124,283,020	0.35078	0.06788	0.41866
1999	125,452,026	25,255,844	20,271,134	130,436,736	0.37748	0.03912	0.41660
2000	136,396,208	26,962,355	22,345,082	141,013,481	0.35780	0.03703	0.39483
2001	150,845,241	28,397,625	25,145,837	154,097,029	0.32599	0.03303	0.35902
2002	165,804,662	30,668,510	28,809,564	167,663,608	0.33606	0.04787	0.38393
2003	177,809,114	30,171,225	31,764,643	176,215,696 (b)	0.33538	0.05276	0.38814
2004	189,334,256	30,644,381	34,822,427	185,156,210 (b)	0.34490	0.04313	0.38803
2005	199,378,304	32,159,586	37,273,945	194,263,945 (b)	0.33117	0.06869	0.39986
2006	230,050,598	37,313,520	61,017,743	206,346,375 (c)	0.34728	0.05258	0.39986

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

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

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

Source: Harris County Appraisal District.

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

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

LAST TEN FISCAL YEARS

Schedule 15

(Unaudited)

(amounts in thousands)

<u>Fiscal Year</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
1997	\$ 511,574	\$ 496,891	97.1	\$ 11,779	508,670	99.4
1998	518,449	499,797	96.4	15,740	515,537	99.4
1999	543,778	522,522	96.1	18,068	540,590	99.4
2000	557,352	538,011	96.5	15,906	553,917	99.4
2001	553,216	547,846	99.0	1,396	549,242	99.3
2002	643,711	617,800	96.0	20,429	638,229	99.1
2003	682,975	657,498	96.3	18,427	675,925	99.0
2004	704,093	693,384	98.5	2,199	695,583	98.8
2005	793,759	740,302	93.3	38,971	779,273	98.2
2006	796,885	719,922	90.3	-	-	0.0

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

	County's Total Outstanding Tax Debt (a)
Limited Tax Debt	\$ 937,121,629
Unlimited Tax Debt	546,599,962
Flood Control	327,395,000
Toll Road Tax Bonds	711,421,798
Total	\$ 2,522,538,389
Less: Toll Road Tax Bonds	(711,421,798)
Total (Approximately 0.68% of 2005 Assessed Value)	\$ 1,811,116,591

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

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

Fiscal Year	Limited Tax Debt			Unlimited Tax Debt			Toll Road Unlimited Tax & Subordinate Lient Revenue Bonds			Flood Control (a)			Total County-Wide Tax Debt		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 33,980,000	\$ 42,192,199	\$ 76,172,199	\$ 19,140,620	\$ 33,628,398	\$ 52,769,018	\$ 6,922,906	\$ 68,490,363	\$ 75,413,269	\$ 17,070,000	\$ 18,057,524	\$ 35,127,524	\$ 77,113,526	\$ 162,368,484	\$ 239,482,010
2008	33,955,000	40,672,993	74,627,993	21,687,327	32,610,797	54,298,124	6,068,227	68,795,042	74,863,269	8,755,287	25,682,457	34,437,744	70,465,841	167,761,289	238,227,130
2009	37,775,000	39,108,994	76,883,994	23,892,422	28,135,314	52,027,736	10,675,665	64,312,366	74,988,031	7,908,864	22,937,380	30,846,244	80,251,951	154,494,054	234,746,005
2010	40,370,000	37,303,211	77,673,211	26,304,593	25,491,344	51,795,937	41,540,000	45,680,694	87,220,694	8,667,889	21,462,254	30,130,143	116,882,482	129,937,503	246,819,985
2011	38,000,000	35,363,212	73,363,212	34,735,000	21,668,361	56,403,361	43,285,000	43,211,694	86,496,694	8,318,921	19,409,710	27,728,631	124,338,921	119,652,977	243,991,898
2012	45,430,000	33,542,214	78,972,214	30,790,000	19,975,986	50,765,986	44,970,000	40,607,444	85,577,444	8,124,024	17,294,233	25,418,257	129,314,024	111,419,877	240,733,901
2013	52,190,000	29,738,304	81,928,304	28,095,000	18,414,576	46,509,576	47,210,000	38,102,031	85,312,031	9,435,000	15,771,706	25,206,706	136,930,000	102,026,617	238,956,617
2014	40,490,022	25,966,752	66,456,774	18,502,902	19,778,049	38,280,951	57,225,000	27,880,612	85,105,612	9,715,000	15,299,981	25,014,981	125,932,924	88,925,394	214,858,318
2015	42,002,460	24,407,548	66,410,008	19,933,385	16,216,904	36,150,289	63,695,000	20,799,981	84,494,981	8,685,000	14,812,644	23,497,644	134,315,845	76,237,077	210,552,922
2016	43,496,787	22,801,880	66,298,667	19,647,743	15,523,666	35,171,409	42,015,000	18,133,275	60,148,275	7,945,000	14,383,275	22,328,275	113,104,530	70,842,096	183,946,626
2017	45,651,714	21,065,863	66,717,577	18,988,741	14,822,116	33,810,857	27,735,000	16,469,397	44,204,397	7,170,000	13,977,513	21,147,513	99,545,455	66,334,889	165,880,344
2018	46,801,285	19,032,842	65,834,127	19,357,229	14,135,079	33,492,308	28,515,000	15,124,441	43,639,441	7,545,000	13,601,087	21,146,087	102,218,514	61,893,449	164,111,963
2019	40,296,339	16,910,021	57,206,360	32,515,000	13,413,554	45,928,554	29,330,000	13,732,831	43,062,831	22,925,000	13,204,975	36,129,975	125,066,339	57,261,381	182,327,720
2020	26,495,898	15,188,965	41,684,863	34,190,000	11,739,998	45,929,998	30,170,000	12,301,594	42,471,594	39,325,000	12,001,412	51,326,412	130,180,898	51,231,969	181,412,867
2021	36,155,000	13,944,252	50,099,252	35,940,000	9,990,472	45,930,472	31,060,000	10,811,031	41,871,031	41,385,000	9,936,850	51,321,850	144,540,000	44,682,605	189,222,605
2022	36,065,000	12,430,833	48,495,833	37,785,000	8,151,335	45,936,335	20,680,000	9,549,681	30,229,681	45,175,000	7,764,138	52,939,138	139,705,000	37,895,987	177,600,987
2023	37,540,000	11,352,609	48,892,609	39,670,000	6,258,040	45,928,040	21,085,000	8,516,491	29,601,491	47,465,000	5,482,237	52,947,237	145,760,000	31,609,377	177,369,377
2024	27,620,806	10,009,663	37,630,469	41,670,000	4,271,250	45,941,250	21,525,000	7,440,684	28,965,684	49,845,000	3,084,625	52,929,625	140,660,806	24,806,222	165,467,028
2025	69,937,279	8,941,155	78,878,434	43,755,000	2,187,750	45,942,750	21,975,000	6,342,072	28,317,072	10,795,000	566,738	11,361,738	146,462,279	18,037,715	164,499,994
2026	14,494,303	5,562,890	20,057,193	-	-	-	12,860,000	5,465,500	18,325,500	-	-	-	27,354,303	11,028,390	38,382,693
2027	27,190,000	4,807,980	31,997,980	-	-	-	12,860,000	4,822,500	17,682,500	-	-	-	40,050,000	9,630,480	49,680,480
2028	28,315,000	3,744,425	32,059,425	-	-	-	12,860,000	4,179,500	17,039,500	-	-	-	41,175,000	7,923,925	49,098,925
2029	11,194,736	3,040,274	14,235,010	-	-	-	12,860,000	3,536,500	16,396,500	-	-	-	24,054,736	6,576,774	30,631,510
2030	19,325,000	2,405,218	21,730,218	-	-	-	12,860,000	2,893,500	15,753,500	-	-	-	32,185,000	5,298,718	37,483,718
2031	20,025,000	1,748,072	21,773,072	-	-	-	12,860,000	2,250,500	15,110,500	-	-	-	32,885,000	3,998,572	36,883,572
2032	20,775,000	1,066,712	21,841,712	-	-	-	12,860,000	1,607,500	14,467,500	-	-	-	33,635,000	2,674,212	36,309,212
2033	21,550,000	359,885	21,909,885	-	-	-	12,860,000	964,500	13,824,500	-	-	-	34,410,000	1,324,385	35,734,385
2034	-	-	-	-	-	-	12,860,000	321,500	13,181,500	-	-	-	12,860,000	321,500	13,181,500
Total	\$ 937,121,629	\$ 482,708,966	\$ 1,419,830,595	\$ 546,599,962	\$ 316,412,989	\$ 863,012,951	\$ 711,421,798	\$ 562,343,224	\$ 1,273,765,022	\$ 366,254,985	\$ 264,730,739	\$ 630,985,724	\$ 2,561,398,374	\$ 1,626,195,918	\$ 4,187,594,292

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

**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY-WIDE AUTHORIZED BUT UNISSUED BONDS
Schedule 18
(Unaudited)
(Amounts in Thousands)**

As of February 28, 2006, the following County-wide ad valorem tax bonds authorized by the voters at elections held in September, 1983, November, 1987, November, 1989, November, 1993, November, 1997, and November, 2001 remain unissued.

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

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

County Ad Valorem Tax Bonds

Limited Tax:

Civil Justice Center	\$ 24,000	
Parks	37,227	
Total Limited Tax Bonds	61,227	\$ 61,227

Unlimited Tax:

Road Bonds	351,536	
Total Unlimited Tax Bonds	351,536	351,536

Combination Unlimited Tax and Revenue:

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

Harris County Flood Control District Limited Tax Bonds	95,000	
Total Harris County Ad Valorem Tax Bonds	525,436	

Port of Houston Authority Unlimited Tax Bonds

Port Improvements	267,271	
Deepening and Widening of Houston Ship Channel	2,956	
Total Port of Houston Authority Bonds	270,227	

Total Authorized but Unissued Bonds		\$ 795,663
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**HARRIS COUNTY FLOOD CONTROL DISTRICT
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS
SCHEDULE OF OPERATING FUNDS BUDGET FOR THE COUNTY'S FISCAL YEAR 2006-2007
Schedule 19
(Unaudited)**

On March 7, 2006 the Commissioners Court adopted the budget for the County for the Fiscal Year 2006-2007. The Fiscal Year 2007 Budget included appropriations for some capital projects, which are financed from current revenues. The following is a summary of the Fiscal Year 2006-2007 Budget for the County's Current Operating Funds:

Cash Balance as of March 1, 2006	\$ 234,921,271
Estimated Revenues:	
Ad Valorem and Miscellaneous Taxes	644,913,520
Charges for Services	180,174,822
Fines and Forfeitures	23,290,645
Intergovernmental Revenues	25,603,596
Interest	6,529,184
Other	48,255,081
Total Cash and Estimated Revenues	<u>\$1,163,688,119</u>
Appropriations:	
Current Operating Expenses	\$1,094,190,618
Capital Outlay:	
Roads	55,424,027
Parks	14,073,474
Total Appropriations	<u>\$1,163,688,119</u>

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund:										
Reserved	\$ 82,630	\$ 84,666	\$ 71,415	\$ 76,937	\$ 71,535	\$ 69,003	\$ 105,162	\$ 100,143	\$ 112,291	\$ 146,218
Unreserved	113,532	120,125	207,206	218,634	204,672	246,811	214,160	250,939	204,852	176,747
Total general fund	<u>\$ 196,162</u>	<u>\$ 204,791</u>	<u>\$ 278,621</u>	<u>\$ 295,571</u>	<u>\$ 276,207</u>	<u>\$ 315,814</u>	<u>\$ 319,322</u>	<u>\$ 351,082</u>	<u>\$ 317,143</u>	<u>\$ 322,965</u>

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

**Schedule 21
(Unaudited)**

County Capital Projects Funds are used to construct roads, office and court buildings, jails, juvenile home facilities, parks and libraries. Cash and investments on hand in the Capital Projects Funds at February 28, 2006 derived from the sale of bonds and the investment income thereon, are designated to be spent over a period of several years for the following purposes:

Roads	\$ 168,706,327
Permanent Improvements	42,748,779
Flood Control	116,936,815
Reliant Park	<u>16,344,509</u>
Total	<u><u>\$ 344,736,430</u></u>



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

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

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as finding 06-01.

Internal Control Over Compliance

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

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

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

Deloitte & Touche LLP

July 27, 2006

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

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

We have audited the basic financial statements of Harris County Flood Control District (the "District"), as of and for the year ended February 28, 2006, and have issued our report thereon dated July 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Deloitte & Touche LLP

July 27, 2006

HARRIS COUNTY FLOOD CONTROL DISTRICT, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

Fund No.	Federal Grantor / Pass-Through Agency Grantor / Program	CFDA Number	Grantor or Pass-through Grantor's Number	Federal Expenditures	Amount Provided to Subrecipients
<u>FEDERAL GRANTS</u>					
<u>U.S. DEPARTMENT OF COMMERCE</u>					
PASS THROUGH PROGRAMS, GENERAL LAND OFFICE:					
7418	Coastal Management Plan	11.419	GLO-04-015	41,309	-
TOTAL U.S. DEPARTMENT OF COMMERCE				<u>41,309</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>					
PASS THROUGH PROGRAMS, GOVERNORS DIVISION OF EMERGENCY MANAGEMENT:					
7004/7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	EMT-2004-PC-0003-03-009	227,036	-
7004/7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	EMT-2004-PC-0003-03-007	572,431	-
7004/7031	FEMA - Pre-Disaster Mitigation Competitive	97.017	EMT-2004-PC-0003-03-012	459,986	-
7288/7293	FEMA - Hazard Mitigation Grant Project	97.039	FEMA-1439-DR-TX-05	324,022	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				<u>1,583,475</u>	<u>-</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>					
PASS THROUGH PROGRAMS, ARMY CORPS OF ENGINEERS:					
3310	Brays Bayou Federal Project	12.000	NONE	9,475,367	-
TOTAL U.S. DEPARTMENT OF DEFENSE				<u>9,475,367</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 11,100,151</u>	<u>\$ -</u>

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2006**

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

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

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

Federal expenditures per schedule	\$	11,100,151
Add:		
Trial Balance adjustments for modified accrual basis of accounting		(123,404)
County funded portion of grants		405,675
Less:		
Grants - Other fund types		<u>(9,475,370)</u>
Total	\$	<u><u>1,907,052</u></u>
Balance per financial report - Grants Special Revenue Fund	\$	<u><u>1,907,052</u></u>

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

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

I. SUMMARY OF AUDITORS' RESULTS

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

Name of Major Federal Program	CFDA Number
FEMA - Hazard Mitigation Grant	97.039
FEMA - Pre-Disaster Mitigation	97.017
Brays Bayou Contract	12.000

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

II. FINANCIAL STATEMENT FINDINGS SECTION

None noted.

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

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

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS SECTION

Program	Finding/Noncompliance	Questioned Cost
Finding 06-01		
<p>Coastal Management Plan, CFDA: 11.419;</p> <p>FEMA – Pre-Disaster Mitigation, CFDA: 97.017;</p> <p>FEMA – Hazard Mitigation Grant, CFDA: 97.039;</p> <p>Brays Bayou Contract, CFDA: 12.000</p>	<p><u>Condition:</u> The Purchasing Agent’s policies and procedures do not require verification that contractors hired to provide goods and services for Federal grant programs are excluded from the Federal list of suspended or debarred vendors.</p> <p><u>Criteria:</u> Executive Order #12549 (via the Common Rule) requires that grantees “Not allow a party to participate in any affected program if any Executive department or agency has debarred, suspended, or otherwise excluded (to the extent specified in the exclusion agreement) that party from participation in an affected program.” The Executive Order also specifies that the federal government will maintain a list of suspended and debarred parties.</p> <p><u>Effect:</u> As contractors are not compared to suspended or debarred vendor list, it is possible that the County may be doing business with federally excluded vendors.</p> <p><u>Cause:</u> The County has not implemented proactive procedures to identify whether potential vendors are suspended or debarred prior to contracting with them.</p> <p><u>Recommendation:</u> Implement procurement procedures to include the comparison of potential vendors against the suspended or debarred vendor list. Provide training to purchasing personnel (and other personnel to which this responsibility may be assigned) on the revised procurement procedures in order to ensure compliance with Federal laws and regulations.</p> <p><u>Corrective Action Plan of Management:</u> The Purchasing Agent will develop policies and procedures to verify the County is not doing business with federally excluded vendors. The Purchasing Agent will also provide the necessary training to personnel responsible for ensuring the policies and procedures are followed.</p> <p><u>Estimated Completion Date:</u> 02/28/2007</p> <p><u>County Contact Persons:</u> Jack R. McCown, Purchasing Agent</p>	<p>None</p>

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

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

IV. STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Program	Finding/Noncompliance	Questioned Cost
	Finding 05-01	
Coastal Management Plan, CFDA: 11.419;	<u>Finding:</u> The Purchasing Agent’s policies and procedures do not require verification that contractors hired to provide goods and services for Federal grant programs are excluded from the Federal list of suspended or debarred vendors.	None
FEMA – Pre-Disaster Mitigation, CFDA: 97.017;	<u>Recommendation:</u> Implement procurement procedures to include the comparison of potential vendors against the suspended or debarred vendor list. Provide training to purchasing personnel (and other personnel to which this responsibility may be assigned) on the revised procurement procedures in order to ensure compliance with Federal laws and regulations.	
FEMA – Hazard Mitigation Grant, CFDA: 97.039;		
Brays Bayou Contract, CFDA: 12.000	<u>Status:</u> The Purchasing Agent had a clause added to all contracts that requires vendors to certify to the County any eligibility violation with Executive Order 12549, “Debarment and Suspension”, regarding federal or state assistance programs.	

