

This Preliminary Official Statement and the information contained herein are subject to completion and amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws hereunder.

PRELIMINARY OFFICIAL STATEMENT DATED MAY 30, 2012

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:
Fitch Ratings “___”
Standard & Poor’s Rating Services “___”

In the opinion of Greenberg Traurig, LLP, Note Counsel, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, interest on the Notes is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Notes will be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, REIT, REMIC, or FASIT) for purposes of computing its alternative minimum tax liability. See “TAX MATTERS” herein.

\$375,000,000*
HARRIS COUNTY, TEXAS
TAX ANTICIPATION NOTES,
SERIES 2012

Interest Accrues from Date of Delivery

Due: February 28, 2013

The \$375,000,000* Harris County, Texas, Tax Anticipation Notes, Series 2012 (the “Notes”), are being issued by Harris County, Texas (the “County”), pursuant to an order of the Commissioners Court of the County (the “Order”), and bear interest from their date of delivery by the County to the Purchasers (named below) to February 28, 2013. The definitive Notes will be initially registered solely in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Notes may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Notes will be made to the owners thereof. Principal of and interest on the Notes will be payable at maturity by The Bank of New York Mellon Trust Company, National Association, a New York banking corporation (the “Paying Agent/Registrar”) at its designated payment office in Dallas, Texas, to the registered owners thereof, initially Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Notes. See “APPENDIX C – Book-Entry Only System” herein. Interest paid on the Notes will be based on a 365-day year for the actual number of days the Notes are outstanding.

The Notes are payable from and secured by a lien on and pledge of certain “Pledged Revenues,” as herein defined, which include certain general fund ad valorem tax revenues of the County, within the limits established by law, as more fully described herein, for the County’s Fiscal Year beginning March 1, 2012 and ending February 28, 2013. See “THE NOTES – Source of Payment” herein.

The Notes are not subject to redemption prior to maturity.

<u>Purchasers</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Reoffering Price</u>	<u>CUSIP⁽¹⁾</u>
	\$	%		414005___

⁽¹⁾ CUSIP numbers have been assigned to the Notes by Standard & Poor’s CUSIP Service Bureau, a Division of The McGraw Hill Companies, Inc., and are included solely for the convenience of the owners of the Notes. Neither the County nor the Purchasers are responsible for the selection or correctness of the CUSIP numbers set forth herein.

The Notes are offered when, as, and if issued, subject to the legal opinion of Greenberg Traurig, LLP, Houston, Texas, Note Counsel for the County, as to the validity of the issuance of the Notes under the Constitution and laws of the State of Texas and the exclusion of interest from gross income of the owners for federal income tax purposes. See “APPENDIX B - Form of Note Counsel’s Opinion.” Certain legal matters will be passed upon for the County by Andrews Kurth LLP, Houston, Texas, Special Disclosure Counsel. See “LEGAL PROCEEDINGS” herein. It is expected that the Notes will be available for delivery through DTC on or about June 27, 2012.

*Preliminary; subject to change.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document may be treated as an Official Statement of the County with respect to the Notes described herein that has been deemed “final” by the County as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE ORDER HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE NOTES IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE NOTES HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE NOTES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The information set forth herein has been furnished by the County and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Purchasers. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder may, under any circumstances, create any implication that there has been no change in the affairs of the County or the other matters described herein since the date hereof.

This Official Statement includes descriptions and summaries of certain events, matters, and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries, and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the County or from the Financial Advisor to the County. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale. No dealer, salesperson, or other person has been authorized by the County to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the County, the Purchasers, or any other person.

The prices and other terms with respect to the offering and sale of the Notes may be changed from time to time by the Purchasers after such Notes are released for sale, and the Notes may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the Notes into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT SUMMARY

This Official Statement Summary, being part of the Official Statement, is subject in all respects to the more complete information contained therein. The offering of the Notes to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Summary Statement from the Official Statement or otherwise to use same without the entire Official Statement.

The Issuer	Harris County, Texas.
The Notes.....	\$375,000,000* “Harris County, Texas, Tax Anticipation Notes, Series 2012.” The Notes are being issued to pay current expenses for the Fiscal Year beginning March 1, 2012 and ending February 28, 2013 (“Fiscal Year 2013”) in anticipation of the levy and collection of Pledged Revenues in the latter part of Fiscal Year 2013. Interest accrues from the date of delivery by the County to the Purchasers, and the principal of and interest on the Notes will be paid at maturity on February 28, 2013. Interest will be computed on the basis of a 365 day year and for the actual number of days outstanding. The Notes are not subject to redemption prior to maturity.
Payment	The County has never defaulted in paying the principal of or interest on any of its debt.
Ratings.....	See “RATINGS” on the cover and herein.
Source of Payment.....	The Notes are payable solely from certain “Pledged Revenues,” as herein defined, including general fund ad valorem tax revenues of the County for Fiscal Year 2013, within the limited established by law, and excluding ad valorem taxes levied for debt service purposes. See “THE NOTES - Source of Payment.”
Paying Agent/Registrar.....	The initial paying agent/registrars are The Bank of New York Mellon Trust Company, National Association.
Tax Exemption	In the opinion of Note Counsel, interest on the Notes is excludable from gross income for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals. See “TAX MATTERS” for a description of alternative minimum tax consequences for corporations.
Book-Entry Only System.....	The Notes are initially issuable only to Cede & Co., the nominee of DTC, pursuant to a book-entry only system. No physical delivery of Notes will be made to beneficial owners thereof. See “APPENDIX C - BOOK-ENTRY ONLY SYSTEM.”

*Preliminary; subject to change.

OFFICIAL STATEMENT

\$375,000,000*

HARRIS COUNTY, TEXAS TAX ANTICIPATION NOTES, SERIES 2012

INTRODUCTION

The Official Statement is provided to furnish information in connection with the offering of "Harris County, Texas, Tax Anticipation Notes, Series 2012" in the aggregate principal amount of \$375,000,000* (the "Notes"). The Notes are issued under the authority of Chapter 1477, Texas Government Code, as amended (the "Act"), and pursuant to an order to be adopted by the Commissioners Court of Harris County, Texas (the "County") on June 12, 2012 (the "Order").

The County's audited basic financial statements for the fiscal year ended February 28, 2011, which are included in APPENDIX A (the "Financial Statements"), present information of the general financial condition of the County at the date and for the period shown. However, the Notes are payable solely from Pledged Revenues. See "THE NOTES - Source of Payment." The inclusion in this Official Statement of the Financial Statements and other financial information in this Official Statement is not intended to imply that any tax revenues or moneys of the County other than the Pledged Revenues are available to pay the principal of or interest on the Notes. As used herein, the term, "Fiscal Year," unless otherwise indicated, means the County's fiscal year which currently is the twelve-month period beginning on March 1 of a calendar year and ending on the last day of February of the next succeeding calendar year, and each such period may be designated with the number of the calendar year in which such period ends.

PURPOSE AND USE OF PROCEEDS

The Notes are being issued to fund, in anticipation of the levy and collection of taxes which will be primarily collected in the latter half of the Fiscal Year beginning March 1, 2012 and ending February 28, 2013 ("Fiscal Year 2013"), the current expenses of the County. The principal revenue source of the County is ad valorem taxes, the largest part of which is collected shortly before the tax delinquency date, which is February 1 of each year. Prior to these collections, current operations are financed by the expenditure of the beginning fund balance, collection from other revenue sources, and short-term borrowings. Based on the budget for Fiscal Year 2013, Notes in the amount of \$375,000,000 would be approximately 41% of the estimated Pledged Revenues for the year. See "GENERAL FUND CASH FLOW."

THE NOTES

Source of Payment

The Notes are payable from and secured by a lien on and pledge of certain "Pledged Revenues" of the County for Fiscal Year 2013. Pledged Revenues are defined in the Order to mean all of the general fund ad valorem tax revenues of the County in Fiscal Year 2013 excluding any and all ad valorem taxes levied for debt service purposes. Neither revenues from any unlimited tax for road bonds nor revenues from any tax for a special road and bridge fund are pledged to the payment of the Notes. See "CONSTITUTIONAL TAX RATE LIMITATIONS" and "COUNTY AD VALOREM TAXES." Pledged Revenues for Fiscal Year 2013 are projected to be \$909,606,000.

Description

The Notes mature on February 28, 2013 and bear interest from their date of delivery by the County to the Purchasers at the rate(s) per annum shown on the cover page hereof. Principal of and interest on the Notes are payable at maturity to the registered owners thereof, at the principal payment office of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, National Association. The Notes are not subject to redemption prior to maturity.

*Preliminary; subject to change.

Ownership

The County, the Paying Agent/Registrar, and any other person may treat the person in whose name any Note is registered as the absolute owner of such Note for the purposes of making payment of the principal thereof and the interest thereon and for all other purposes, whether or not such Note is overdue. Neither the County nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary. All payments made to the registered owner of such Note in accordance with the Order will be valid and effectual and will discharge the liability of the County and the Paying Agent/Registrar for such Note to the extent of the sums paid.

Issuance of Additional Notes

Under the Order, the County may issue additional notes which may be payable from the Pledged Revenues on a parity and of equal dignity with the Notes. The County may issue additional notes in Fiscal Year 2013, which may mature prior to the maturity of the Notes. Such additional notes may be payable at such time or times and under such other terms and conditions as determined by Commissioners Court.

Perfection of Security

Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Notes and the pledge of the Pledged Revenues thereto, and such pledge is, therefore, valid, effective, and perfected at the time of delivery of the Notes to the Purchasers. Should Texas law be amended at any time while the Notes are outstanding and unpaid, the result of such amendment being that the pledge of the Pledged Revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, as amended, in order to preserve to the registered owners of the Notes a security interest in such pledge, the County agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Default and Remedies

The Order pursuant to which the Notes are issued obligates the Commissioners Court to levy, assess and collect an annual ad valorem tax, within the limits established by law, which will be sufficient to pay when due the principal of and interest on the Notes. The Order, however, makes no provisions for (1) other security for the payment of the Notes, (2) express remedies in the event of default, (3) acceleration of maturity of the Notes if default occurs or (4) a trustee to protect the rights of the owners of the Notes.

Although an owner of the Notes could presumably obtain a judgment against the County if a default occurred in the payment of principal of or interest on the Notes, such judgment could not be satisfied by execution against any property of the County. The only principal remedy, if a default occurs, is a mandamus proceeding to compel the Commissioners Court to levy, assess and collect a limited annual ad valorem tax sufficient to pay the principal of and interest on the Notes as they become due.

The enforcement of a claim for payments of principal of or interest on the Notes, including the remedy of mandamus, would be subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally.

GENERAL FUND CASH FLOW

The County's General Fund operating expenses tend to occur in level amounts throughout a Fiscal Year, but a major portion of ad valorem taxes are not received until the latter half of the Fiscal Year.

The County prepared the following cash flow tables. The General Fund Actual Cash Flow for Fiscal Year 2012 was compiled using actual data. The General Fund Projected Cash Flow for Fiscal Year 2013 was compiled using estimates from March 1, 2012 through February 28, 2013. If the assumptions underlying the Fiscal Year budget are not fully realized, the General Fund Projected Cash Flow for Fiscal Year 2013 may vary from the following projections. These tables include interest expense on tax anticipation notes, but do not reflect the proceeds or principle repayment of such notes.

Harris County, Texas
General Fund Projected Cash Flow
For Fiscal Year 2012-13
(Unaudited)
(In thousands)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Total
Est. Beginning Cash Balance	\$ 165,332	\$ 92,201	\$ 39,466	\$ (14,238)	\$ (83,337)	\$ (146,101)	\$ (247,451)	\$ (317,748)	\$ (383,997)	\$ (435,393)	\$ (364,934)	\$ (56,362)	
Basis Beginning Cash													
FY 12 Cash Adj Rollforward	(8,441)												
Cash Basis Beginning Cash	156,891	92,201	39,466	(14,238)	(83,337)	(146,101)	(247,451)	(317,748)	(383,997)	(435,393)	(364,934)	(56,362)	156,891
Revenues													
Taxes	23,221	12,785	7,882	6,647	5,994	3,232	1,508	2,294	16,320	142,747	372,812	314,164	909,606
Intergovernmental	1,403	5,300	2,506	1,182	5,953	1,743	1,440	4,184	3,339	1,416	4,211	3,145	35,822
Charges for Services	20,830	13,138	26,943	13,013	14,641	11,816	13,871	13,214	12,323	15,353	18,722	15,716	189,580
Fines & Rents	1,834	1,844	1,692	1,765	1,648	1,926	1,655	1,817	1,681	1,521	1,677	2,755	21,815
Interest	-	19	14	(1)	(27)	59	52	117	34	5	(29)	459	702
Other Revenue	8,027	1,878	1,559	2,095	1,227	3,361	1,677	3,025	5,007	1,517	5,379	6,442	41,194
Transfers from other funds	228	7,201	-	-	-	-	-	-	-	-	-	-	7,429
	55,543	42,165	40,596	24,701	29,436	22,137	20,203	24,651	38,704	162,559	402,772	342,681	1,206,148
Expenditures													
Labor & Benefits	96,413	68,200	68,200	68,200	68,200	99,587	68,200	68,200	68,200	68,200	68,200	68,200	878,000
Other Expenditures	14,706	26,200	25,800	25,000	23,500	23,500	22,000	22,000	21,500	23,500	22,500	27,494	277,700
Transfers to other funds	4,907	500	300	600	500	400	300	700	400	400	3,500	3,093	15,600
	116,026	94,900	94,300	93,800	92,200	123,487	90,500	90,900	90,100	92,100	94,200	98,787	1,171,300
Other Sources (Uses)													
Receivables	(5,154)												(5,154)
Payables	955												955
Payroll Timing Differences													-
Other	(8)												(8)
	(4,207)	-	-	-	-	-	-	-	-	-	-	-	(4,207)
Ending Cash Balance	\$ 92,201	\$ 39,466	\$ (14,238)	\$ (83,337)	\$ (146,101)	\$ (247,451)	\$ (317,748)	\$ (383,997)	\$ (435,393)	\$ (364,934)	\$ (56,362)	\$ 187,532	\$ 187,532

Notes:

* Actual amounts shown for March. Three payroll periods occur in March and August.

* Beginning cash and projected revenues are based on the Auditor's Estimate of Available Resources. Actual revenues typically exceed the estimate

Harris County, Texas
General Fund Cash Flow
For Fiscal Year 2011-2012 (Post Cash Cycle)
(Unaudited)
(In thousands)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Total
Est. Beginning Cash Balance	\$ 42,258	\$ 9,016	\$ (52,351)	\$ (71,439)	\$ (142,536)	\$ (212,810)	\$ (275,760)	\$ (372,258)	\$ (447,885)	\$ (497,389)	\$ (417,712)	\$ (69,825)	42,258
FY 12 Cash Adj Rollforward	3,326	48	1,691	134	-	-	(4)	-	-	-	-	-	5,195
Cash Basis Beginning Cash	45,584	9,064	(50,660)	(71,305)	(142,536)	(212,810)	(275,764)	(372,258)	(447,885)	(497,389)	(417,712)	(69,825)	47,453
Revenues													
Taxes	20,745	12,321	6,542	6,473	5,208	3,319	1,932	1,917	17,023	149,067	404,639	298,323	927,509
Intergovernmental	1,386	7,175	3,889	1,092	6,980	2,527	1,689	4,610	3,647	1,794	5,045	6,755	46,589
Charges for Services	21,383	13,178	29,846	13,559	16,500	12,540	14,600	14,237	13,752	13,258	20,251	18,133	201,237
Fines & Rents	2,322	1,855	1,834	1,688	1,506	2,084	1,627	1,767	1,792	1,566	1,566	2,982	22,589
Interest	4	40	37	5	-	175	50	283	77	47	12	621	1,351
Other Revenue	8,613	1,717	2,050	3,066	1,482	7,136	1,912	5,257	4,048	2,375	9,065	5,248	51,969
Transfers from other funds	34,205	-	15,221	(12)	(1)	-	1,389	1	-	137	323	8,893	60,156
	88,658	36,286	59,419	25,871	31,675	27,781	23,199	28,072	40,339	168,244	440,901	340,955	1,311,400
Expenditures													
Labor & Benefits	103,586	70,958	68,890	68,511	68,472	68,368	97,866	67,719	68,247	68,362	68,767	67,814	887,560
Other Expenditures	13,476	24,830	17,080	28,729	23,266	27,376	22,007	23,004	23,799	26,268	19,972	34,356	284,163
Transfers to other funds	2,768	6,038	178	846	1,243	3	4,067	1,633	(1,319)	(28)	784	1,795	18,008
	119,830	101,826	86,148	98,086	92,981	95,747	123,940	92,356	90,727	94,602	89,523	103,965	1,189,731
Other Sources (Uses)													
Receivables	(6,454)	1,172	7,054	303	(863)	5,864	(3,637)	(2,201)	410	658	(5,616)	150	(3,160)
Payables	(882)	2,251	(1,730)	2,729	(5,575)	4,342	2,720	(6,229)	465	41	1,518	6,615	6,265
Payroll Timing Differences	(2,083)	9	2,074	-	-	(14)	11	-	(23)	936	3	(1)	912
Other	4,023	693	(1,448)	(2,048)	(2,530)	(5,176)	5,153	(2,913)	32	4,400	604	(16,621)	(15,831)
	(5,396)	4,125	5,950	984	(8,968)	5,016	4,247	(11,343)	884	6,035	(3,491)	(9,857)	(11,814)
Ending Cash Balance	\$ 9,016	\$ (52,351)	\$ (71,439)	\$ (142,536)	\$ (212,810)	\$ (275,760)	\$ (372,258)	\$ (447,885)	\$ (497,389)	\$ (417,712)	\$ (69,825)	\$ 157,308	\$ 157,308
Tax Anticipation Notes:													
TAN Deposit - Cumulative	-	-	-	-	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000
TAN Premium - Cumulative	-	-	-	-	4,776	4,776	4,776	4,776	4,776	4,776	4,776	4,776	4,776
TAN Interest expense	-	-	-	-	-	-	-	-	-	-	-	(5,193)	(5,193)
TAN Payback	-	-	-	-	-	-	-	-	-	-	-	(450,000)	(450,000)
Total TAN	-	-	-	-	454,776	454,776	454,776	454,776	454,776	454,776	454,776	(417)	(417)
Ending Cash After TANS	\$ 9,016	\$ (52,351)	\$ (71,439)	\$ (142,536)	\$ 241,966	\$ 179,016	\$ 82,518	\$ 6,891	\$ (42,613)	\$ 37,064	\$ 384,951	\$ 156,891	\$ 156,891

Notes:

* Actual amounts shown. Does not include year end accrual adjustments.

The cash flow tables on the previous pages do not include the County's Public Improvement Contingency Fund or Mobility Fund.

The Public Improvement Contingency Fund had a cash and investment balance of approximately \$24 million as of February 29, 2012. The Public Improvement Contingency Fund may be used to increase General Fund resources, at the discretion of Commissioners Court.

Amounts in the Mobility Fund are used for road design, construction, maintenance and repair, including mobility-related projects arising from emergency events such as a hurricane. Since its creation in Fiscal Year 2010, the Mobility Fund has received transfers of \$120 million annually from the Harris County Toll Road Authority. The Mobility Fund had a balance of approximately \$166 million as of February 29, 2012. The County may transfer funds from the Mobility Fund to the General Fund, but must reimburse the Mobility Fund for any such transfers.

CONSTITUTIONAL TAX RATE LIMITATIONS

The Texas Constitution authorizes the County to levy a tax for general fund, permanent improvement fund, road and bridge fund, and jury fund purposes limited in the aggregate to \$0.80 per \$100 of assessed valuation (the "\$0.80 Tax Limitation"). The County has consolidated all of these constitutional purposes into a General Fund tax levy, subject to the \$0.80 Tax Limitation. The Pledged Revenues are derived from a portion of the County's General Fund tax levy. See "COUNTY AD VALOREM TAXES - County Tax Rates."

In addition, the Texas Constitution authorizes the County to levy (1) a tax, without legal limit as to rate or amount, to pay debt service on County road bonds, and (2) a special road and bridge fund tax, not to exceed \$0.15 per \$100 of assessed valuation for restricted purposes. Neither revenues from any unlimited tax for road bonds nor revenues from any tax for a special road and bridge fund are pledged to the payment of the Notes. See "COUNTY AD VALOREM TAXES - County Tax Rates."

The Commissioners Court is responsible for levying taxes on behalf of the County.

AD VALOREM TAXES

Property Subject to Taxation

Except for certain exemptions provided by Texas law, all real and certain tangible personal property and certain intangible personal property with a tax situs in the County is subject to taxation by the County. The County's assessed value, including the assessed value of railroad rolling stock and intangible properties of railroads and certain common carriers, is the assessed value used by the Commissioners Court to determine the tax rate for the County's levy. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which ad valorem taxes have been abated for a specified period of time pursuant to tax abatement agreements; farm products owned by the producer; certain property owned by qualified charitable, religious, veterans, youth, fraternal, or educational organizations; property of a non-profit corporation that is used in scientific research and educational activities benefiting a college or university; designated historic sites; solar and wind powered energy devices; nonprofit cemeteries; and tangible personal property not held or used for production of income.

Valuation of Property for Taxation

The Property Tax Code of Texas (the "Property Tax Code") generally requires all taxable property (except property utilized for a qualified "agricultural use," as that definition has been expanded by recent legislation, and timberland) to be appraised at 100% of market value as of January 1 of each year. Section 1, Article VIII, Texas Constitution provides that real property that is the residence homestead of the property owner will be taxed solely on the basis of its value as a residence homestead, regardless of whether residential use by the owner is considered to be the highest

and best use of the property. Residential property that has never been occupied as a residence and is being held for sale is treated as inventory for property tax purposes.

The appraisal of taxable property for the County (except certain railroad rolling stock and certain intangible property of railroads and certain common carriers, the taxable value of which is recommended by the state tax board and accepted or modified by the County) and all other taxing entities in the County is the responsibility of the Harris County Appraisal District (the "Appraisal District"), a county-wide agency created under the Property Tax Code for that purpose.

The Appraisal District is governed by a five-member board whose members are appointed by vote of the Commissioners Court and the governing bodies of the cities, towns, school districts and, upon request, conservation and reclamation districts in the County under a voting system weighted in direct proportion to the amount of taxes imposed by the voting entities. Cumulative voting for Appraisal District Board members is permitted and, through the exercise of that right, the Commissioners Court, the Houston City Council and the Houston Independent School District Board of Education may each select one member.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of all taxable property in the County, and reappraisal must be effected at least once every three years. The Appraisal District has established a schedule of reappraisal for different classifications of property to comply with such requirements.

The Texas Constitution authorizes the Texas Legislature to (1) authorize a single board of equalization for two or more adjoining appraisal entities that elect to provide for consolidated equalizations and (2) provide for the administration and enforcement of uniform standards and procedures for appraisal of property for ad valorem tax purposes.

Taxable values determined by the chief appraiser of the Appraisal District are submitted for review and equalization to an Appraisal Review Board (the "Appraisal Review Board") appointed by the local administrative district judge. Appraisals may be contested before the Appraisal Review Board by taxpayers or, under limited circumstances, the County, and the Appraisal Review Board's orders are appealable to a State district court.

Limitations on Tax Rate Increases

The Commissioners Court adopts tax rates for the County by September 1 of each year, or as soon thereafter as is practicable. The Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the latter of September 30 or the sixtieth day after the date the certified appraisal roll is received by the taxing unit, and the failure to adopt a tax rate by such required date will result in the tax rate for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Such rates are based on the assessed values at January 1 of each year, as shown on the tax roll approved by the Appraisal Review Board which must be used by the County for such purpose. The Property Tax Code imposes limitations on certain tax increases. The Commissioners Court may under certain circumstances be required to publish notice and hold a public hearing on a proposed tax rate before voting on the tax rate. If the tax rate adopted exceeds by more than 8% the rate needed to pay debt service and certain contractual obligations, and to produce, when applied to the property which was on the prior year's roll, the prior year's taxes levied for purposes other than debt service and such contractual obligations, such excess portion of the levy may be repealed at an election with the County held upon petition of 7% of the qualified voters of the County.

Collections, Penalty, and Interest

The County Tax Assessor-Collector is responsible for collection of taxes. The Property Tax Code contains provisions which allow the assessment and collections of County taxes by the Appraisal District or another taxing unit if the Commissioners Court elects to enter into a contract for that purpose and the County Tax Assessor-Collector approves such contract. The Property Tax Code also provides for assessment and collections of County taxes by the Appraisal District or another taxing unit in the County if that procedure is approved at an election which may be initiated by petition of 10,000 qualified voters of the County.

Tax statements are required to be mailed by October 1, or as soon thereafter as practicable, and taxes become delinquent on February 1 of the following year. If tax statements are mailed after January 10, the delinquency date is postponed to the first day of the next month that will provide a period of least 21 days between the date the statement is mailed and the date taxes become delinquent. So long as the Commissioners Court or voters of the County have not transferred responsibility for collection of the taxes to another taxing unit or the Appraisal District, the Commissioners Court may permit payment without penalty or interest of one half of the taxes due from each taxpayer by July 1 if one half of the taxes due for the current year from such taxpayers are paid prior to December 1. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to July 1, and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. If the delinquency date is postponed, then the postponed date is the date from which penalty and interest accrues on the delinquent taxes. The County may waive penalties and interest on delinquent taxes if the error or omission of a representative of the County or of the Appraisal District caused the failure to pay the tax before delinquency and if the tax is paid within 21 days after the taxpayer knows or should know of the delinquency.

Tax Liens

The Property Tax Code provides that on January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the County, having power to tax the property. The tax lien on real property has priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the other debt or lien existed before the attachment of the tax lien. Taxes levied by the County are the personal obligation of the property owner and, under certain circumstances, personal property is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest thereon. Except with respect to taxpayers 65 and older, any time after taxes on property become delinquent, the County may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax or both. In filing a suit to foreclose a tax lien on real property, the County must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the County to collect delinquent taxes by foreclosure may be adversely effected by the amount of taxes owed to other taxing units, certain affirmative defenses, adverse market conditions affecting the liquidation of such property, taxpayer redemption rights, general principals of equity, or bankruptcy proceedings which restrain the collection of taxpayer's debt.

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COUNTY AD VALOREM TAXES

County Tax Rates

The following table shows the ad valorem tax rates per \$100 of assessed value levied by the County for each of the tax years 2007 through 2011. The tax rates are based on assessment of taxable property at 100% of appraised value. (The tax year of the County is the calendar year, but its Fiscal Year begins March 1 and ends on the last day of February of the next year.) In addition to the County's ad valorem taxes, the Commissioners Court levies taxes on property in the County on behalf of the Flood Control District, the Port and the Hospital District. The County Tax Assessor-Collector collects ad valorem taxes for the Flood Control District, the Port and the Hospital District using the same property values as the County, except that the rolling stock of railroads and intangible properties of railroads and certain common carriers are taxable only by the County.

<u>Purpose</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
County:					
Operating Fund	\$0.33221	\$0.33221	\$0.33221	\$0.33221	\$0.33221
Public Improvement Contingency Fund	0.00697	0.00594	0.00180	0.00180	<u>0.00223</u>
Debt Service	<u>0.03200</u>	<u>0.03192</u>	<u>0.03642</u>	<u>0.03635</u>	<u>0.03825</u>
Total (\$0.80 Limited Tax Rate)	0.37118	0.37007	0.37043	0.37036	0.37269
Road Bond Debt Service:					
(Unlimited Tax Rate)	0.02121	0.01916	0.02181	0.01769	0.01848
Toll Road Authority Tax Bond:					
Debt Service (Unlimited Tax Rate) ^(a)	--	--	--	--	--
Total County Tax Rate	<u>\$0.39239</u>	<u>\$0.38923</u>	<u>\$0.39224</u>	<u>\$0.38805</u>	<u>\$0.39117</u>
Harris County Flood Control District: ^(b)					
Operating Fund	0.02754	0.02754	0.02754	0.02727	0.02727
Debt Service	<u>0.00352</u>	<u>0.00332</u>	<u>0.00168</u>	<u>0.00196</u>	<u>0.00082</u>
Total	\$0.03106	\$0.03086	\$0.02922	\$0.02923	\$0.02809
Port of Houston Authority Debt Service ^(c)	0.01437	0.01773	0.01636	0.02054	0.01856
Harris County Hospital District ^(d)	<u>0.19216</u>	<u>0.19216</u>	<u>0.19216</u>	<u>0.19216</u>	<u>0.19216</u>
Total County-Wide Ad Valorem Tax Rate	<u>\$0.62998</u>	<u>\$0.62998</u>	<u>\$0.62998</u>	<u>\$0.62998</u>	<u>\$0.62998</u>

(a) The County's policy and practice has been to provide for payment of debt service on the Toll Road Authority Tax Bond debt from toll revenues and certain other funds, and no taxes have to date been collected to provide for such debt service. See "COUNTY-WIDE AD VALOREM TAX DEBT — Tax Debt Outstanding."

(b) The ad valorem tax rate that the Commissioners Court may levy on behalf of the Flood Control District is limited by law to a maximum of \$0.30 per \$100 of assessed value.

(c) The ad valorem tax rate that the Commissioners Court may levy on behalf of the Port of Houston to pay their bonds is by law unlimited.

(d) The ad valorem tax rate that the Commissioners Court may levy on behalf of the Hospital District is limited by law to a maximum of \$0.75 per \$100 assessed value.

Source: Harris County Tax Assessor-Collector and Harris County Auditor's Office.

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County Assessed Values and Tax Rates

The following table shows the County's assessed values and tax rates for each of the tax years 2002 through 2011. Taxable property is assessed at 100% of the appraised value as established by the Appraisal District.

Assessed Value as of January 1 (Dollars In Thousands)

<u>Tax Year</u>	<u>Fiscal Year Ended Feb. 28/29</u>	<u>Real Property^(a)</u>	<u>Personal Property</u>	<u>Less Exemptions^(a)</u>	<u>Total Taxable Value^{(a)(b)(c)(d)(e)}</u>	<u>Total County Tax Rate per \$100 of Taxable Values</u>
2002	2003	\$177,809,114	\$30,171,225	\$31,764,643	\$176,215,696	\$0.38814
2003	2004	189,334,256	30,644,381	34,822,427	185,156,210	0.38803
2004	2005	199,378,304	32,159,586	37,273,945	194,263,945	0.39986
2005	2006	230,050,598	37,313,520	61,017,743	206,346,375	0.39986
2006	2007	250,997,888	40,381,452	66,142,090	225,237,250	0.40239
2007	2008	281,251,230	46,122,092	73,150,566	254,222,756	0.39239
2008	2009	313,740,198	50,453,455	82,016,388	282,177,265	0.38923
2009	2010	316,949,419	54,044,038	85,902,801	285,090,656	0.39224
2010	2011	307,139,208	51,636,041	85,743,093	273,032,156	0.38805
2011	2012	310,369,291 ^(d)	54,418,796 ^(d)	88,403,932	276,456,735 ^(d)	0.39117

(a) Net of exemptions and abatements.

(b) The County, either by action of the Commissioners Court or through a process of petition and referendum initiated by its residents, may grant partial exemptions for residential homesteads of persons 65 years of age or older and of certain disabled persons. The Commissioners Court has granted an exemption of residential homesteads for persons 65 years of age or older and disabled persons of up to \$160,000 of assessed value. If requested, the County must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans or of persons who died while on active duty in an amount not to exceed \$3,000 of assessed value. The County may also authorize exemptions of up to 20% of the value of residential homesteads from ad valorem taxation. The Commissioners Court has granted a 20% exemption.

(c) The County and certain taxing units located within the County may enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The County or taxing unit (as applicable) in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. Such abatement agreement may last for a period of up to 10 years. The estimated value of property in the County that was subject to tax abatement as of March 9, 2012 is approximately \$198.4 million and such value at the end of the abatement period is currently estimated to be approximately \$338.9 million. Assessed taxable value figures herein are net of abatements.

(d) Interim estimate based upon Appraisal District supplemental reports dated as of March 9, 2012. Does not include assessed values for properties whose values are currently being protested.

(e) 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.

Source: Harris County Tax Assessor-Collector and Harris County Auditor's Office.

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Tax Increment Reinvestment Zones

The County and certain taxing units located within the County may elect to participate in Tax Increment Reinvestment Zones (“TIRZs”). TIRZs are created by municipalities to revitalize or redevelop unproductive, underproductive, or blighted areas. The participating taxing units contribute some or all of the tax revenues generated by the growth in a TIRZ’s taxable value to the revitalization or redevelopment effort. TIRZs generally are created for a period of up to 30 years.

County Tax Levies, Collections, and Delinquencies

The table below sets forth a comparison of the ad valorem taxes levied and collected by the County (excluding the Flood Control District, the Port and the Hospital District) for the tax years 2002 through 2011.

(Dollars in Thousands)

Tax Year	Fiscal Year ended Feb 28/29	Total Tax Levy	Current Tax Collections^(a)	Percent of Current Levy	Delinquent Collections^(b)	Total Collections	Total Collections as a Percentage of Levy
2002	2003	\$ 682,975	\$ 657,498	96.3%	\$ 21,324	\$678,822	99.4%
2003	2004	704,093	693,384	98.5	7,607	700,991	99.4
2004	2005	793,759	740,302	93.3	17,101	757,403	99.3
2005	2006	796,885	719,922	90.3	95,190	815,112	99.4
2006	2007	887,598	793,835	89.4	103,866	897,701	99.3
2007	2008	929,929	910,828	97.9	71,838	982,666	99.1
2008	2009	1,089,141	984,625	90.1	90,398	1,072,205	98.5
2009	2010	1,115,155	1,036,477	93.0	46,864	1,083,341	97.2
2010	2011	1,054,820	987,684	93.6	45,024	1,032,708	97.9
2011 ^(c)	2012	1,081,700	1,022,187	94.5	17,742	1,039,929	96.1

- (a) Taxes levied in any year which are collected beginning October 1 of such year through June 30 of the following year are shown as current collections. Such amounts include that portion of the current levy collected on or after February 1, which is the date taxes become legally delinquent. The amounts in this column are reflected as of the last day of February of the years shown.
- (b) Collections for prior years’ levies of taxes during the period beginning July 1 of the year shown and ending on June 30 of the following year are shown as delinquent collections which apply to prior tax years and are collected for multiple tax years. The accumulation of all unpaid ad valorem taxes which were due at the end of the collection period beginning on July 1 of the year shown and ending on June 30 of the following year is shown as delinquent taxes receivable. The County is barred from bringing suit for collection of delinquent personal property taxes after four years from the time such taxes become delinquent. Real property taxes, until paid, constitute a lien against the property. The County is barred from bringing suit for collection of delinquent personal property and real property taxes annually. Pursuant to Section 33.05, subsection (c) of the Property Tax Code, the County Tax Assessor-Collector is required to cancel and remove from the delinquent tax roll a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. The delinquent taxes may not be canceled if litigation concerning the taxes is pending.
- (c) As of March 31, 2012.

Source: Harris County Tax Assessor-Collector and Harris County Auditor’s Office.

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Principal Taxpayers

The following table lists the 15 taxpayers with the largest taxable values in the County.

(Dollars in Thousands)
(unaudited)

Taxpayers	Type of Business	2011 Taxable Valuations^(a)	Percentage of Total 2011 Taxable Valuation^(b)
1. Exxon Mobil Corporation	Oil, Chemical Plant	\$ 2,835,689	1.03%
2. Centerpoint Energy, Inc.	Electric Utility	2,393,466	0.87
3. Shell Oil Company	Oil Refinery	2,319,116	0.84
4. Chevron Chemical Company	Oil, Gas	1,531,505	0.55
5. Hines Interest Ltd Partnership	Real Estate	1,180,205	0.43
6. Hewlett Packard	Computers	1,118,454	0.40
7. Crescent Real Estate	Real Estate	1,076,212	0.39
8. National Oilwell	Oil & Gas Equipment	1,053,525	0.38
9. Equistar Chemicals LP	Chemical	984,726	0.36
10. Houston Refining	Oil Refinery	948,896	0.34
11. Walmart	Retail	808,079	0.29
12. AT&T Mobility LLC	Telephone	780,563	0.28
13. Lyondell Chemical Company	Oil, Chemical Plant	728,917	0.26
14. Amoco Chemical Company	Oil, Chemical Plant	577,210	0.21
15. Continental Airlines Inc. ^(c)	Aviation	<u>492,228</u>	<u>0.18</u>
Total		<u>\$18,828,791</u>	<u>6.81%</u>

- (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) County's total taxable value based on Appraisal District supplemental reports dated as of March 9, 2012.
- (c) Continental Airlines Inc. is now a wholly owned subsidiary of United Continental Holdings, Inc.

Source: Harris County Appraisal District

COUNTY AD VALOREM TAX DEBT

Payment Record

The County has never defaulted in the payment of the principal of or the interest on any of its debt.

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Tax Debt Outstanding

The following table shows the total principal amount of the County’s debt outstanding payable from ad valorem taxes as of April 30, 2012. The outstanding long-term tax debt is payable from separate taxes levied for debt service:

	County’s Total Outstanding <u>Long-Term Debt</u>
Limited Tax Debt ^(a)	\$ 1,122,596,628
Unlimited Tax Bonds	749,615,000
Toll Road Tax Bonds	<u>537,890,000</u>
Total	\$ 2,410,101,628
Less: Toll Road Tax Bonds ^(b)	<u>(537,890,000)</u>
Total (approximately .68% of Tax Year 2011 Estimated Assessed Value)	<u>\$ 1,872,211,628</u>

- (a) Does not include the outstanding \$18,550,000 Harris County Flood Control District Contract Tax Refunding Bonds, Series 2004A, the \$94,185,000 Flood Control District Contract Tax Refunding Bonds, Series 2006A, the \$134,190,000 Flood Control District Contract Tax Refunding Bonds, Series 2008A, the \$151,260,000 Flood Control District Contract Tax Refunding Bonds, Series 2008C, or the \$181,885,000 Harris County Flood Control District Contract Tax Refunding Bonds, Series 2010A, all of which are payable from contractual payments made by the County to the District secured by the County’s limited tax pursuant to Flood Control Projects Contracts. See “—Other Obligations.”
- (b) Toll Road Tax Bonds are secured by a subordinate pledge of net revenues of the County’s toll road system. The County has never been required to levy a tax for the payment of such bonds.

Source: Harris County Financial Management.

In addition to the outstanding long-term debt shown above, Commissioners Court has established a general obligation commercial paper program payable from ad valorem taxes for the purpose of financing various short-term assets and temporary construction financing for certain long-term fixed assets. See “— Commercial Paper.”

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Estimated County-Wide and Overlapping Ad Valorem Tax Debt

In addition to the taxing entities mentioned below, approximately 33 cities, towns, and villages; 31 independent school districts; four junior college districts; and approximately 368 utility districts are empowered to levy taxes on property within the County and reported by the Municipal Advisory Council of Texas as having debt outstanding.

The following summary of estimated outstanding ad valorem tax debt of taxing entities within the County was compiled by the County’s Financial Advisor from a variety of sources, including Texas Municipal Reports as compiled and published by the Municipal Advisory Council of Texas. The County believes such sources to be reliable, but the County takes no responsibility for the accuracy or completeness thereof. The table reflects debt outstanding as of various dates. Certain entities listed below may have issued substantial amounts of debt since the latest available data and may have capital improvement programs requiring the issuance of a substantial amount of additional debt which the County cannot control.

	<u>Long Term Debt Outstanding</u>	
	(Dollars in Thousands)	
County-Wide Taxing Entities: ^(a)		
Harris County Flood Control District	\$ 680,090	
Harris County ^(b)	1,872,212	
Port of Houston Authority	<u>745,874</u>	\$3,298,176
Cities:		
Houston ^(c)	\$5,267,940	
Other cities	<u>1,358,462</u>	\$6,626,402
Independent School Districts, Junior College Districts and the Harris County Department of Education ^(c)	\$13,210,253	
Utility Districts	<u>4,489,112</u>	<u>\$17,699,365</u>
Total		<u>\$27,623,943</u>

(a) As of April 30, 2012. Exclusive of commercial paper transactions.
 (b) Excludes all outstanding Toll Road Tax Bonds which are secured by a subordinate lien on toll road net revenues; no tax has ever been required to pay such bonds. See “County-Wide Ad Valorem Tax Debt Service Requirements” and footnote (a) thereto.
 (c) Includes certain contract tax bonds substantially equivalent to ad valorem tax bonds.

Source: Harris County Financial Management and the Municipal Advisory Council of Texas.

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County-Wide Authorized but Unissued Bonds

The following table shows County-wide ad valorem tax bonds that have been authorized by the voters but remain unissued. The table 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.

<u>Type and Purpose</u>	<u>Authorized But Unissued</u> ^{(a) (b)} (Dollars in Thousands)	
County Ad Valorem Tax Bonds		
Limited Tax:		
Civil Justice Center	\$ 33,000	
Certificates of Indebtedness for Fire-Fighting Facilities	0	
Libraries	0	
Parks	65,000	
Forensic Lab	80,000	
Family Law Center	<u>\$ 70,000</u>	
Total Limited Tax Bonds		\$ 248,000
Unlimited Tax:		
Road Bonds	<u>\$ 146,977</u>	
Total Unlimited Tax Bonds		\$ 146,977
Combination Unlimited Tax and Revenue:		
Toll Bonds	<u>\$ 15,148</u>	
Total Combination Unlimited Tax and Revenue Bonds		\$ 15,148
Harris County Flood Control District Limited Tax Bonds		<u>0</u>
Total Harris County Ad Valorem Tax Bonds		<u>\$ 410,125</u>
Port of Houston Authority Unlimited Tax Bonds		
Port Improvements	\$ 0	
Deepening and Widening of Houston Ship Channel		
Port Improvements, Docks and Security Enhancements	<u>\$ 0</u>	
Total Authorized but Unissued Port of Houston Authority Bonds		<u>0</u>
Total Authorized but Unissued Bonds		<u><u>\$ 410,125</u></u>

(a) In November 1999, voters authorized \$119 million in debt for a Civil Justice Center of which \$33 million of authorization remains. In November 2007 voters authorized \$435 million of County debt which includes \$95 million for parks (of which \$65 million is still available) and \$80 million for a forensic lab and \$70 million for a Family Law Center. Also authorized was \$190 million for roads, of which \$146.9 million remains available. Harris County Toll Road Authority has voter authorization of \$15.1 million remaining from the 1983 election in which voters authorized \$900 million. The County may also issue tax supported certificates of obligation and commercial paper notes without voter authorization.

(b) As of April 30, 2012.

Source: Harris County Financial Management.

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Commercial Paper

In addition to the outstanding long-term tax debt shown in the “Tax Debt Outstanding,” the Commissioners Court has established a general obligation commercial paper program secured by ad valorem taxes for the purposes of financing various short-term assets and providing temporary construction financing for certain long-term fixed assets. The commercial paper program consists of five series and totals \$800 million as follows:

<u>Series</u>	<u>Program Size</u>	<u>Security</u>	<u>Liquidity Bank</u>	<u>Liquidity Expiration</u>
A-1	\$100 million	limited tax	State Street	08/20/2013
B	\$40 million	limited tax	Bank of America	08/20/2013
D	\$200 million	limited tax	JPMorgan Chase	08/20/2013
F	\$200 million	limited tax	Helaba	08/01/2012
C	\$260 million	unlimited tax	Bank of America	08/20/2013

A portion of the Series B (parks and libraries) and Series C (roads and bridges) programs are issued pursuant to voted authorization obtained at elections held within the County in November 2001. See “County-Wide Authorized but Unissued Bonds.” A portion of the Series B Notes, are authorized to be issued for certain purposes (libraries) not required to be approved at an election.

As of April 30, 2012, specific projects have been approved for no more than \$631 million of commercial paper. As of such date, the County had outstanding \$223 million of commercial paper, of which \$79.2 million was secured by the County’s limited tax and \$143.8 million was secured by the County’s unlimited tax.

The Port of Houston has established a \$236 million commercial paper program pursuant to voter authorization obtained at elections held in 2007; however, the Port has issued all of the authorized debt and the balance of authorized but unissued debt is now \$0.

Other Obligations

In addition to voter authorized bonds, the Commissioners Court of the County can also authorize the issuance of certificates of obligation, short term notes, contractual obligations for personal property, and lease obligations. In addition, the County has contractual obligations to make payments to the Flood Control District secured by the County’s limited tax pursuant to certain Flood Control Projects Contracts.

Financial Management Products

As part of the County’s management of its debt portfolio, the County, consistent with the guidelines set forth in its financial management products policy adopted by the County on June 29, 2004, as readopted on April 13, 2010 (the “Financial Management Products Policy”), considers and uses various financial management products such as interest rate swaps, caps, and floors (collectively, “Financial Management Products”) in connection with debt issued by the County. The County may enter into such Financial Management Products as authorized by Commissioners Court and approved by the Attorney General of the State of Texas. At this time, the County has no Financial Management Products outstanding payable from the General Fund Tax Levy.

Pursuant to the Financial Management Products Policy, the County will evaluate the use of Financial Management Products by comparing them to traditional financing vehicles and structures and will only use a Financial Management Product if it produces significant quantifiable value or reduces the risk exposure in management of its debt portfolio. In addition, the County shall neither have fixed rate swaps in effect with an aggregate notional amount in excess of 30% of the aggregate outstanding principal amount of debt and bonds issued by the County, nor basis swaps in effect with an aggregate notional amount in excess of 30% of the aggregate outstanding principal amount of debt and bonds issued by the County.

The Financial Management Products Policy provides that the County may choose counterparties for entering into Financial Management Products provided such counterparties are rated at least “AA-” by S&P or Fitch Ratings or “Aa3” by Moody’s or the obligations of such counterparties are guaranteed by a person with such rating or the obligations of such counterparties are collateralized by obligations with such rating, with such ratings determined at the time the County enters into such agreements, all as required by the Commissioners Court and other applicable regulations. In addition, any uncollateralized counterparty’s termination exposure may not exceed between \$75 million and \$100 million per any single counterparty.

The County tracks and regularly reports on the financial implications of its Financial Management Products. A semi-annual report is prepared for the County’s Executive Director of Budget Management by the County’s Financial Management Products Committee. In addition, the County’s Financial Management Products Committee performs such monitoring and reporting as is required by the rating agencies or the Government Accounting Standards Board (“GASB”).

INVESTMENTS

The County invests its investable funds in investments authorized by Texas law in accordance with written investment policies approved by the Commissioners Court of the County, a copy of which is available upon request. Both state law and the County’s investment policies are subject to change.

The Financial Management Office of the County invests all investable County funds, which include funds of the following departments or governmental bodies: Harris County, the Flood Control District, the Toll Road Authority and Community Supervision and Corrections. The County operates as an investment agent for the 911 Emergency Network, Department of Education, the Port, the Harris County-Houston Sports Authority and the Hospital District. Each of the above entities has a separate investment portfolio and the funds are not commingled into a single pool of investments.

Current Texas law authorizes the County to invest in: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations 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, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit that are issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for County deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the County and held in the County’s name; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with the Securities and Exchange

Commission that have a dollar-weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two-years, invest exclusively in obligations described in this paragraph and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of no less than “AAA” or its equivalent, and (14) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1) above in an amount at least equal to the amount of bond proceeds invested under such contract.

Investment Strategy and Policy

Under Texas law, the County is required to invest its funds under a written investment policy that primarily emphasizes safety of principal and liquidity and that addresses investment diversification, yield, maturity, and the quality and capability of investment management. All County funds must be invested in investments that are consistent with the operating requirements of the County.

Current Investments

As of April 30, 2012, the following percentages of the County’s investable funds were invested in the following categories of investments. The average remaining maturity of such investments was 247 days based on par value.

Distribution of County Investable Funds

U.S. Government Securities	37%
Commercial Paper	23%
Money Market Deposits	31%
Municipal Securities	<u>9%</u>
	<u>100%</u>

Source: Harris County Financial Management.

THE COUNTY

Administration of the County

The County Judge and the four County Commissioners who comprise the Commissioners Court, the County Tax Assessor-Collector and the County Treasurer, all of whom are elected officials, and the County Auditor and County Budget Officer have responsibility for the budget and financial administration of the County.

The Commissioners Court is the governing body of the County. It has certain powers expressly granted to it by the Legislature and powers necessarily implied from such grant. Its duties include approval of the County budget, determination of County tax rates, approval of contracts in the name of the County, calling elections, issuance of bonds and appointments of certain County officials.

The County Judge, Ed Emmett, is the presiding officer of the Commissioners Court. The County Judge is elected by the voters to a four-year term of office.

The County Commissioners are El Franco Lee, Jack Morman, Steve Radack, and R. Jack Cagle, and each represents one of the four precincts into which the County is divided. Each County Commissioner is elected by the voters to a four-year term of office.

The County Treasurer, Orlando Sanchez, is an elected official of the County, and the chief custodian of County funds, which duties include the receipt of all monies belonging to the County from whatever source they may be derived, the deposit of such funds in a designated depository, and the payment and application or disbursement of such funds, in such manner as the Commissioners Court may require or direct not inconsistent with law.

The County Tax Assessor-Collector and Voter Registrar, Don Summers, CPA, RTA, is an elected official of the County responsible for assessing and collecting ad valorem taxes and processing voter registration in the County.

The County Clerk, Stan Stanart, is an elected official of the County and serves as Ex-Officio Clerk of the Commissioners Court.

The County Attorney, Vince Ryan, an elected official of the County, advises and represents the County and its officers and employees in connection with legal matters.

The County Auditor, Barbara Schott, CPA, has oversight responsibility for the financial books and records of the County and its officials. The duties of the County Auditor include prescribing accounting procedures, preparing statutorily required financial reports, budgetary oversight, and performing financial and compliance audits. The County Auditor is appointed for a two-year term by the State District Judges of the County.

The County Budget Officer, William J. Jackson, is appointed by Commissioners Court and is responsible for preparing proposed annual budgets and has responsibility for both the County's investments and debt management.

The number of County employees at Fiscal Years ended 2008 through 2012, are set forth below:^(a)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Administration of Justice	8,740	9,425	9,308	8,779	8,462
Parks	732	787	797	670	625
County Administration	3,024	3,339	3,161	3,032	2,901
Health and Human Services	1,706	1,796	1,718	1,467	1,385
Flood Control	325	354	374	335	308
Tax Administration	435	428	415	378	341
Roads and Bridges	<u>807</u>	<u>856</u>	<u>914</u>	<u>597</u>	<u>561</u>
Total	<u>15,769</u>	<u>16,985</u>	<u>16,687</u>	<u>15,258</u>	<u>14,583</u>

(a) As of February 29, 2012, it is estimated that approximately 2,639 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.

(b) As of February 29, 2012.

Source: Harris County Auditor's Office.

Retirement Program

The Texas County and District Retirement System administers a combined retirement program for officials and eligible employees of both the County and the Flood Control District. For a description of the plan, including County and employee contributions for the most recent fiscal year and the possibility of unfunded liabilities, see Note 12 to the Comprehensive Annual Financial Report ("CAFR") attached hereto as **APPENDIX A**.

Beginning with the fiscal year that ended February 29, 2008, the County is subject to GASB 45. GASB 45 requires the County to estimate the liabilities of its retiree healthcare plan (other post-employment benefits or OPEB), as well as recognize contribution amounts and reserves relating to its OPEB plans for current retirees and employees. The actuarially determined unfunded actuarial accrued liability (UAAL) for Harris County and Flood Control District retiree health care benefits at March 1, 2011, was \$960,495,459. The County may modify its OPEB plans in the future and such liabilities may change. See Note 13 to the CAFR attached hereto as **APPENDIX A**.

County Offices and Courts and Branch Office Buildings

The County's courthouse complex in downtown Houston (the "Complex") covers an area of approximately eight city blocks and houses most of the County's administrative offices and the County's State District Courts and County Courts. Currently, the ten major buildings in the Complex include a civil courts building, a criminal courts

building, a domestic relations courts building, three buildings housing administrative offices, a Criminal Justice Center, two County detention facilities, and a building housing the jury assembly room, several courtrooms and a parking garage.

The County also owns or rents a number of branch office buildings. These buildings house fifteen Justice of the Peace Courts at separate locations and various facilities for the Sheriff, the Constables, the Tax Assessor-Collector, the County Clerk and the County Commissioners.

Other County Services

The County operates a County jail and detention system, an extensive system of roads, streets, bridges and highways, a park system, a library system and juvenile homes and provides various levels of civil and criminal courts, a District Attorney's office, a County Attorney's office, a County Sheriff's department, juvenile probation and detention services and mosquito control services. The County also provides various public health and social welfare services which include financial assistance to indigent people requiring extensive nursing care, protective services for dependent and neglected children, special nutrition programs for the elderly, employment of public health nurses, regular inspection of restaurants and other food handling establishments, investigation of sanitary sewer and other pollution control facilities, immunization and licensing of animals and operation of a mental health and mental retardation facility and related services. In addition, the County owns the Reliant Park (formerly known as the Astrodomain Complex), which is comprised of Reliant Center, Reliant Stadium, Reliant Astrodome and Reliant Arena, and provides for their operation through the Harris County Sports & Convention Corporation, a non-profit corporation created by the County.

Public Infrastructure Department

The purpose of the Harris County Public Infrastructure Department is to coordinate and develop plans, budgets and studies for an infrastructure program that includes roads, parks and flood control. The Executive Director is appointed by the Commissioners Court.

Harris County Toll Road Authority

The Harris County Toll Road Authority (the "Authority") was established pursuant to Chapter 284, Texas Transportation Code, as amended, by an order adopted by the Commissioners Court in September, 1983, and the members of its operating board are the members of the Commissioners Court. The Authority was created for the sole purpose of implementing the County's toll road projects and does not have any responsibilities with respect to the other road projects of the County, but plans and operations are coordinated with the Public Infrastructure Department and other support groups in County government. The management of the Authority is the responsibility of its Director, reporting through the Harris County Public Infrastructure Department.

Harris County Flood Control District

The Flood Control District, created by a special act of the Texas Legislature in 1937, is a conservation and reclamation district authorized under Article XVI, Section 59 of the Texas Constitution, and a political subdivision of the State of Texas, having boundaries continuous with those of the County. The Flood Control District was created for the purpose of controlling storm and floodwater of rivers and streams and reclaiming and draining overflow lands. Since the creation of the Flood Control District, the County has relinquished certain flood control and drainage activities to the Flood Control District. The Flood Control District encompasses approximately 1,700 square miles, 22 watersheds and 3,000 miles of watercourses. Substantially all of the City of Houston, the fourth most populated city in the nation, is located within the Flood Control District. The management of the Flood Control District is the responsibility of its Director, reporting through the Harris County Public Infrastructure Department.

Harris County-Houston Sports Authority

The Harris County-Houston Sports Authority (the "Sports Authority") was created by concurrent orders of the Commissioners Court of Harris County, Texas and the City Council of the City of Houston, Texas, effective September 1, 1997. The Sports Authority is a separate political subdivision of the State of Texas, organized as a sports and community venue district under Chapters 334 and 335, Texas Local Government Code. Since its creation, the Authority has issued debt to finance the construction of (a) Minute Maid Park for use by the Houston Astros Major League baseball team, (b) Reliant Stadium for use by the Houston Texans National Football League team, and (c) the Toyota Center and Tundra garage for use by the Houston Rockets National Basketball Association team. The Sports Authority's debt is secured by senior, junior, and subordinate lien pledges of hotel occupancy and motor vehicle taxes, and by separate pledges of certain special revenues. The Sports Authority is a separate governmental subdivision from the County and the County is prohibited from using its ad valorem tax revenues for payment of any of the Sports Authority's obligations. Neither the County nor taxpayers have direct liabilities related to Sports Authority obligations. The management of the Sports Authority is the responsibility of its 13 member board of directors, six of which are appointed by the City Council of the City of Houston, six of which are appointed by Commissioners Court of the County, and the chair of which is appointed jointly by both the City and the County.

BUDGETING PROCEDURES AND OPERATING FUNDS BUDGET

Current Operating and Debt Service Funds Budgeting Procedures for the County

Under the County's budgeting procedures, the County Budget Officer, who is appointed by the Commissioners Court, prepares the budgets for the County for the Fiscal Year, after consultation with department heads and representatives of members of the Commissioners Court. The proposed budgets, together with revenue estimates furnished by the County Auditor, are submitted to the Commissioners Court for its consideration.

Public hearings on the budgets are held by the Commissioners Court, which may increase or decrease any budget item prior to such budget's formal adoption; however, the amount budgeted for any fund cannot exceed the County Auditor's estimate of revenues for the budget year plus the cash balances at March 1.

After the budgets have been adopted by the Commissioners Court, the Budget Officer and County Auditor are responsible for monitoring the expenditures of the various departments of the County to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the Commissioners Court advised of the condition of the various appropriation accounts. The Commissioners Court may transfer amounts among budget classifications in these funds, but no such transfer will increase the total of the budget. Purchase orders and contracts are not valid until the County Auditor certifies that money is or will be available to make payment.

Encumbrances against budgeted appropriations are recorded in the County's records upon execution of purchase orders, contracts or other appropriate documents. Encumbered amounts remaining unexpended at the end of the year are reappropriated in the following year's budget.

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Operating Funds Budget for the County’s Fiscal Year Ending Last Day of February, 2013

On March 13, 2012, the Commissioners Court adopted the budget for the County for the Fiscal Year 2013 which included appropriations for some capital projects which are financed from current revenues. The following is a summary of the Fiscal Year 2013 budget for the County’s Current Operating Funds:

Cash Balance as of March 1, 2012	\$ 145,954,000
Estimated Revenues:	
Ad Valorem and Miscellaneous Taxes	907,692,298
Charges for Services	190,405,616
Fines and Forfeitures	17,881,860
Intergovernmental Revenues	35,618,948
Interest	707,500
Other	<u>41,259,346</u>
Total Cash and Estimated Revenues	<u>\$1,339,519,568</u>
Appropriations:	
Current Operating Expenses	\$1,329,086,633
Capital Outlay:	
Roads	8,852,227
Parks	1,450,708
Office/Courts	<u>130,000</u>
Total General Fund Appropriations	<u>\$1,339,519,568</u>

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HISTORICAL OPERATIONS OF THE GENERAL FUND

For Each of the Five Fiscal Years Ended February 28/29^(a)
(Modified Accrual Basis)

	Audited				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
REVENUES:					
Taxes	\$ 853,173,796	\$ 954,801,360	\$1,037,918,722	\$1,067,004,433	\$1,020,224,909
Charges for Services	214,428,909	199,364,932	195,771,180	195,960,672	190,571,842
Fines and Forfeitures	23,363,208	20,903,419	21,137,352	20,868,888	18,628,729
Intergovernmental	34,627,189	43,417,964	40,332,679	42,765,668	40,420,672
Interest/Miscellaneous	57,695,264	65,705,872	63,320,187	51,890,127	51,663,892
Other Financing Sources	<u>293,829,688</u>	<u>163,968,657</u>	<u>482,845,625</u>	<u>326,342,763</u>	<u>455,554,151</u>
Total Revenues	<u>\$1,477,118,054</u>	<u>\$1,448,162,204</u>	<u>\$1,841,325,745</u>	<u>\$1,704,832,551</u>	<u>\$1,777,064,195</u>
EXPENDITURES:					
Current Operating:					
Administration of Justice	\$ 633,854,990	\$ 734,385,287	\$ 823,165,579	\$ 857,312,833	\$812,628,336
Parks/Road & Bridge	123,541,303	134,356,281	139,365,237	151,736,998	142,321,463
County/Tax Administration	243,819,339	260,960,644	270,204,951	260,223,667	250,658,295
Health and Human Services	111,793,363	109,748,458	114,026,628	115,374,781	106,062,482
Capital Outlay	15,465,919	14,744,071	25,597,278	43,106,103	49,963,469
Debt Service	96,146,551	97,966,715	91,872,408	101,453,961	87,701,853
Other Financing Uses	<u>270,574,062</u>	<u>31,147,666</u>	<u>376,618,779</u>	<u>201,944,283</u>	<u>351,605,547</u>
Total Expenditures	<u>\$1,495,195,527</u>	<u>\$1,383,309,122</u>	<u>\$1,840,850,860</u>	<u>\$1,731,152,626</u>	<u>\$1,800,941,445</u>
Excess of Revenues/Sources over Expenditures/Uses	\$ (18,077,473)	\$ 64,853,082	\$ 474,885	\$ (26,320,075)	\$ (23,877,250)
Fund Balance – Beginning	<u>321,796,324</u>	<u>303,718,851</u>	<u>368,571,933</u>	<u>369,046,818</u>	<u>342,726,743</u>
Fund Balance – Ending	<u>\$ 303,718,851</u>	<u>\$ 368,571,933</u>	<u>\$ 369,046,818</u>	<u>\$ 342,726,743</u>	<u>\$ 318,849,493</u>

(a) Audited amounts for the fiscal years ending February 28/29 include general fund and general fund debt service. Fiscal Years 2008-2011 also include the Public Improvement Contingency Fund. Fiscal Years beginning with 2010 also include the Mobility Fund.

ENVIRONMENTAL REGULATION

General

The County is subject to the environmental regulations of the State and the United States. These regulations are subject to change, and the County may be required to expend substantial funds to meet the requirements of such regulatory authorities.

Air Quality

Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (“TCEQ”) may curtail new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight-county, Houston-Galveston Consolidated Metropolitan Statistical Area (“CMSA”) has been designated by the EPA as an ozone non-attainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA’s ozone standards is achieved.

The CMSA initially was designated as a severe ozone non-attainment area under EPA's 1-hour ozone standard. As part of an overall program to achieve compliance with the 1-hour ozone standard, the EPA and TCEQ imposed a series of increasingly stringent limitations on emissions of "highly reactive" volatile organic compounds and nitrogen oxides ("NOx") from existing stationary sources of air emissions in the CMSA. Although these limitations were successful in reducing ozone concentrations, they were not sufficient for the CMSA to achieve compliance with the 1-hour ozone standard.

In April 2004, EPA introduced a new national ambient air quality standard for ozone, the 8-hour standard, which is considered to be somewhat more stringent than the previous 1-hour standard. EPA formally designated the Houston-Galveston CMSA as a moderate ozone non-attainment area under the new 8-hour standard and has required the CMSA to achieve compliance with the 8-hour standard by 2010. EPA is transitioning from the older, 1-hour standard to the new, 8-hour standard and, accordingly, revoked the 1-hour standard effective June 15, 2005. Although the 1-hour standard is no longer in effect, non-attainment areas such as the CMSA are not allowed to "back-slide" or lose progress already made towards attaining the 1-hour ozone standard. As a result, the specific emission control measures established in an effort to achieve compliance with the 1-hour standard must stay in place until the CMSA attains the 8-hour standard.

In addition to the emissions reductions previously required for the CMSA to achieve compliance with the 1-hour ozone standard, further emissions reductions will be required in order to achieve compliance with the new 8-hour ozone standard. In addition, any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.15 times the amount of pollutants proposed to be emitted by the new source. Due to the shortage of economically reasonable control options, it is possible that such emission reduction requirements could have a negative impact on the area's economic growth and development. If the CMSA fails to demonstrate progress in reducing ozone concentrations or fails to meet the 8-hour ozone standard by 2010, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in travel restrictions or other limitations on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the CMSA.

In addition, TCEQ has announced enforcement initiatives addressed to sources of NOx and HRVOCs in the Houston area. TCEQ announced that it is dedicating additional enforcement resources to perform in-depth, on-site inspections of industrial facilities that have unauthorized emissions of significant amounts of HRVOCs in the past year. TCEQ also announced a diesel engine initiative, pursuant to which TCEQ will be investigating the regulatory compliance of stationary diesel engines at facilities along the Houston Ship Channel. Moreover, while the County continues to have the ability to inspect industrial facilities to determine whether they are complying with TCEQ-imposed air emissions limits, the County no longer is authorized by the State to bring direct enforcement actions against alleged violators; rather the County must refer its investigation results to the TCEQ for action. The County previously obtained the ability to pursue direct enforcement against violators on December 29, 2004, following amendment of a contract between the County and TCEQ that allowed the County to conduct investigations of industrial facilities. However, this contract, and the funding provided by TCEQ to assure its implementation, expired on September 1, 2005. The discontinuance of this contractual arrangement with the TCEQ and the loss of the associated funding are likely to diminish the City's role in performing facility investigations, and could have a limiting effect on the County's ability to help the CMSA attain compliance with EPA's ozone standards.

It remains to be seen exactly what steps will ultimately be required to meet federal air quality standards, how the EPA may respond to developments as they occur, and what impact such steps and any EPA responses may have upon the economy and the business and residential communities in the CMSA.

Area Topography and Land Subsidence

The land surface in certain areas of the County has subsided several feet since 1943 and the subsidence is continuing. The principal causes of subsidence are considered to be the withdrawal of groundwater and, to a lesser extent, oil and gas production. Subsidence may impair development in certain areas and expose such areas to flooding and severe property damage in the event of storms and hurricanes, and thus may affect assessed valuations in those areas. In 1975, the Texas Legislature created the Harris-Galveston Coastal Subsidence District to provide regulatory control over the withdrawal of groundwater in Harris and Galveston Counties in an effort to limit subsidence. This groundwater conservation district, with no powers to levy taxes or incur debt, encompasses an area which includes the existing surface water supplies. With the reduction of withdrawal of groundwater, the rate of subsidence has been reduced.

PENDING LITIGATION

The County is also a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of the performance of governmental functions, certain of which seek substantial damages. Such litigation includes lawsuits claiming damages that allege personal injuries, wrongful deaths and property damage and lawsuits alleging discriminatory hiring and firing practices; various claims from contractors for amounts under construction contracts; inverse condemnation claims; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The County intends to defend itself against these suits vigorously. The County cannot predict, as of the date hereof, the final outcome of any of such claims and suits. In the opinion of management of the County, it is improbable that lawsuits now outstanding against the County that are associated with the operation of the County could become final in a time and manner so as to have a material adverse financial impact upon the operations of the County.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under Texas law, the Notes are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees. The Notes are also legal and authorized investments for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas and are lawful and sufficient security for the deposits to the extent of their market value as long as the Notes maintain a rating as to investment quality by a nationally recognized rating agency of not less than "A" or its equivalent.

The County has not made any investigation of any other laws, rules, regulations, or investment criteria that affect the suitability of the Notes for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Notes. The County has made no review of laws in other states to determine whether the Notes are legal investments for various institutions in those states.

RATINGS

The rating services of Fitch Ratings and Standard & Poor's Ratings Services have assigned ratings of "___" and "___," respectively, to the Notes. Ratings reflect only the views of the rating agencies, from whom an explanation of the significance of such ratings may be obtained. There is no assurance that ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Notes. The County will undertake no responsibility to notify the owners of the Notes of any such revisions or withdrawals of ratings.

TAX MATTERS

Opinion

In the opinion of Greenberg Traurig, LLP, Note Counsel, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Notes is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Notes will be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, Real Estate Investment Trust, Real Estate Mortgage Investment Conduit, or Financial Asset Securitization Investment Trust) for purposes of computing its alternative minimum tax liability. Corporate purchasers of the Notes should consult their tax advisors regarding the computation of alternative minimum tax. See APPENDIX C — Form of Note Counsel Opinion.

The Internal Revenue Code of 1986, as amended (the “Code”) establishes certain requirements that must be met at and subsequent to the issuance of the Notes in order for interest on the Notes to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of Note proceeds, restrictions on the investment of proceeds and other amounts, and rebate to the United States of certain earnings from investments. Failure to comply with these continuing requirements may cause interest on the Notes to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The County has covenanted to comply with certain procedures, and has made certain representations and certifications, designed to assure compliance with these Code requirements. In rendering its opinion, Note Counsel will rely on these covenants, and on representations and certifications of the County relating to matters solely within its knowledge (which Note Counsel has not independently verified), and will assume continuing compliance by the County.

Prospective purchasers of the Notes should be aware that ownership of, receipt of interest on, or disposition of the Notes may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers of the Notes should consult their tax advisors regarding any potential collateral tax consequences. Note Counsel expresses no opinion regarding any such collateral tax consequences.

The statutes, regulations, published rulings, and court decisions on which Note Counsel has based its opinion are subject to change, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the “Service”), respectively. No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt of interest on, or the acquisition, ownership, market value, or disposition of, the Notes. No ruling concerning the tax treatment of the Notes has been sought from the Service, and the opinion of Note Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service's view, interest on such tax-exempt obligations is excludable from gross income for federal income tax purposes. No advice can be given regarding whether the Service will commence an audit of the Notes. If such an audit were to be commenced, under current procedures, the Service would treat the County as the taxpayer, and owners of the Notes would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the Notes, the County might have different or conflicting interests from those of the owners of the Notes.

The opinions set forth above are based on existing law and Note Counsel's knowledge of relevant facts on the date of issuance of the Notes. Such opinions are an expression of professional judgment and are not a guarantee of result. Except as stated above, Note Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt of interest on, or the acquisition, ownership, or disposition of, the Notes. Further, Note Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention, or any changes in law that may occur after the issuance date of the Notes. In addition, Note Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the Notes may affect the tax-exempt status of interest on the Notes.

Original Issue Premium

The Notes (the "Premium Notes") may be offered and sold to the public at prices greater than their stated redemption prices (the principal amount) payable at maturity ("Note Premium"), which, for federal income tax purposes, is amortized over the period to maturity of the Premium Notes based on the yield to maturity of such Premium Notes compounded semiannually. No portion of Note Premium is deductible by an owner of Premium Notes.

For purposes of determining Premium Notes owner's gain or loss on sale, redemption (including redemption at maturity), or other disposition of Premium Notes, the owner's tax basis in the Premium Notes is reduced by the amount of Note Premium that amortizes during the ownership period. As a result, an owner of Premium Notes may realize taxable gain for federal income tax purposes upon the sale or other disposition of such Premium Notes for an amount equal to or less than the amount paid by the owner for such Premium Notes. A purchaser of Premium Notes at its issue price in the initial offering who holds such Premium Notes to maturity will realize no gain or loss upon retirement of those Premium Notes. Owners of Premium Notes should consult their tax advisors with respect to the determination for federal income tax purposes of the amount of Note Premium properly amortizable in any tax year (or portion thereof), and with respect to other federal, state, and local tax consequences of owning and disposing of Premium Notes.

LEGAL PROCEEDINGS

The delivery of the Notes is subject to receipt of the legal opinion of Greenberg Traurig, LLP, Houston, Texas, Note Counsel, as to the validity of the issuance of the Notes under the Constitution and laws of the State of Texas and the exclusion from gross income of the owners thereof for federal income tax purposes. The opinion of Note Counsel will be based upon an examination of a transcript of certain proceedings taken by the County incident to the issuance and authorization of the Notes. Certain legal matters will be passed upon for the County by Andrews Kurth LLP, Houston, Texas, Disclosure Counsel, and certain legal matters will be passed upon for the County by Vince Ryan, County Attorney.

In its capacity as Note Counsel, Greenberg Traurig, LLP has reviewed the information appearing in this Official Statement with respect to the description of the Notes solely to determine whether such information conforms to and fairly summarizes the provisions of the Order referred to herein. Such firm has also read and participated in the drafting of the information under the headings "THE NOTES," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION." Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the County for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

The fees of Greenberg Traurig, LLP and Andrews Kurth LLP for their services with respect to the Notes are contingent upon the sale and delivery of the Notes.

Greenberg Traurig, LLP and Andrews Kurth LLP may each represent the Purchasers from time to time in matters unrelated to the Notes.

The various legal opinions to be delivered concurrently with the delivery of the Notes express the professional opinion of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction; nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR

First Southwest Company has been retained by the County as its Financial Advisor in connection with the issuance of the Notes and, in such capacity, has assisted the County in the preparation of documents. The Financial Advisor's fee for services rendered with respect to the sale of the Notes is not contingent upon the issuance and delivery of the Notes. Additionally, First Southwest Company is retained from time to time by the County to advise on specific financial management products in accordance with the Financial Management Product Policy. See "COUNTY AD VALOREM TAX DEBT - Financial Management Products."

Although the Financial Advisor has read and participated in the preparation of this Official Statement, such firm has not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the County's records and from other sources that are believed to be reliable, including financial records of the County and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

OFFICIAL STATEMENT CERTIFICATE

At the time of delivery of the Notes, the representative of the Purchasers will receive a certificate dated the date of delivery of the Notes to the Purchasers, signed on behalf of the County by the County Judge acting solely in an official capacity, substantially to the effect that to the best of such official's knowledge and belief, as of the date of the delivery of the Notes to the Purchasers, the Official Statement, excluding the Appendices and information relating to taxing authorities other than the County, as then supplemented or amended, does not contain an untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In delivering such certificate, the County Judge may rely in part on an examination of the records of the County relating to matters within his area of responsibility, and discussion with, or certificates or correspondence signed by, certain other officials, employees, consultants, and representatives of the County.

NO-LITIGATION CERTIFICATE

The County will deliver to the Purchasers a certificate signed by the County Judge and dated as of the date of delivery of the Notes to the effect that no litigation has been filed or is then pending to restrain or enjoin the issuance or delivery of the Notes, or which would affect the provisions made for payment of the principal of and interest on the Notes or in any manner questioning the validity of the Notes.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the County has made the following agreement for the benefit of the holders and beneficial owners of the Notes. The County is required to observe this agreement for so long as it remains obligated to advance funds to pay the Notes. Under the Order, the County will be obligated to provide certain updated financial information and operating data annually and timely notice of specified material events to the MSRB. The County is only required to make filings with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access System ("EMMA").

Certain Event Notices

The County will provide timely notices of certain events to certain information vendors. Specifically, the County will provide notice of any of the following events with respect to the Notes: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material

events affecting the tax status of the Notes; (7) modifications to rights of holders of the Notes, if material; (8) Note calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, if material; (11) rating changes, (12) bankruptcy, insolvency, receivership, or similar event of the County; (13) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee or the change in the name of the trustee, if material. No provisions for credit enhancement, credit facilities or optional redemption are included in the Order authorizing the Notes. In addition, the County will provide timely notice of any failure by the County to provide information, data, or financial statements in accordance with its agreement described above under "Financial Statements."

For the purposes of the event numbered 12 in the preceding paragraph, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the County in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the County, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the County. The County will provide each notice described in this paragraph to the MSRB through EMMA.

Limitations and Disclaimers

The County has agreed to update information and to provide notices of certain events only as described above. The County has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The County makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Notes at any future date. The County disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Notes may seek a writ of mandamus to compel the County to comply with its agreement. Nothing in this paragraph is intended or will act to disclaim, waive or limit the County's duties under federal or state securities laws.

Audited Financial Report of the County

The County requires that an annual audit be performed by an independent public accounting firm in accordance with generally accepted auditing standards. The Fiscal Year 2011 audit and additional financial information are available for public inspection, or copies may be obtained to the extent permitted by law, by written request, addressed to the County Auditor.

COMPLIANCE WITH PRIOR UNDERTAKINGS

For the past five years, the County has complied in all material respects with all continuing disclosure agreements made in accordance with the Rule with respect to the County's bonds and other obligations subject to the Rule, except as described in this paragraph. The annual financial information and operating data of the County which was due by August 31, 2007, was not provided by such date. The delayed filing resulted from the Fiscal Year 2006 annual financial report for the County being reissued, which resulted in a delay until October, 2007, in the completion of the County's annual audited financial information for Fiscal Year 2006, at which time the filing was made. The Fiscal Year 2006 annual financial report for the County was reissued in order to identify and test a major grant program and make certain corrections and restatements primarily related to fixed asset balances. The County has consulted with its Financial Advisor, Bond Counsel and Disclosure Counsel for advice relating to continuing disclosure compliance matters in an effort to develop and institute recommended practices and procedures to help ensure that required filings are made in a timely manner in the future.

FINANCIAL STATEMENTS

APPENDIX A to this Official Statement contains the basic financial statements of the County for the Fiscal Year ended February 28, 2011. The financial statements of the County as of and for the Fiscal Year ended February 28, 2011 included in this Official Statement has been audited by Deloitte & Touche LLP, independent auditors, as stated in its report (which includes a reference to other auditors and an emphasis paragraph regarding the County's implementation of new accounting standards) included with such financial statements in APPENDIX A.

The basic financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and, in addition to financial information with respect to the County, include financial information with respect to the Harris County Flood Control District, Harris County Juvenile Board, the Harris County Sports & Convention Corporation, the Hospital District, Harris County Housing Finance Corporation, Mental Health and Mental Retardation Authority of the Harris County, Harris County Industrial Development Corporation, Children's Assessment Center Foundation, Inc., Harris County Health Facilities Development Corporation, Harris County Cultural Education Facilities Finance Corp. and Friends of County Pets, all of which are separate entities which are not obligated for the payment of the Notes. Accordingly, financial and statistical information with respect to such separate entities is generally not included in this Official Statement.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The information set forth herein has been obtained from records, financial reports, and other sources of the County which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and orders. These summaries do not purport to be a complete statement of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

MISCELLANEOUS

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any forecast will approximate actual results, and all opinions, estimates, and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Statements made herein regarding the Notes are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Order, copies of which are available upon request from Mike Austin, Director, Financial Management, Harris County Administration Building, 1001 Preston, Suite 630, Houston, Texas 77002, (713) 755 8171, upon the payment of reasonable reproduction and postage costs.

The County's annual audited financial statements are available from Barbara Schott, C.P.A., County Auditor, Harris County Administration Building, 1001 Preston, 8th Floor, Houston, Texas 77002, (713) 755-6897, upon the payment of reasonable reproduction and postage costs. Copies can also be obtained from the Harris County website at www.hctx.net. Monthly Financial Statements are also available on the website.

THIS OFFICIAL STATEMENT was approved, and the execution and delivery of this Official Statement authorized on behalf of the County by the Commissioners Court.

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APPENDIX A

BASIC FINANCIAL STATEMENTS FOR YEAR ENDED FEBRUARY 28, 2011

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HARRIS COUNTY, TEXAS

Basic Financial Statements For The Fiscal Year Ended February 28, 2011

**Prepared By:
Barbara J. Schott, C.P.A.
County Auditor
1001 Preston, Suite 800
Houston, Texas 77002**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Harris County, Texas (the "County"), as of and for the year ended February 28, 2011, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on the respective financial statements based on our audit. We audited the financial statements of the Harris County Hospital District, a discretely presented component unit, but did not audit the financial statements of the remaining discretely presented component units which statements reflect 7%, 9% and 11%, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We also did not audit the financial statements of the Harris County Clerk Registry Fund and the Harris County District Clerk Registry Fund agency funds, which statements reflect 32% percent of the assets of the agency funds at February 28, 2011. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the agency funds, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 County'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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Harris County, Texas, as of February 28, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.C. to the County's basic financial statements, the County implemented Governmental Accounting Standards Board Statements No. 51 "Accounting and Financial Reporting for Intangible Assets" and No. 53 "Accounting and Financial Reporting for Derivative Instruments."

The Management's Discussion and Analysis, Schedule of Available Resources – Budget and Actual Budgetary Basis – General Fund, and the Schedule of Expenditures and Other Uses – Budget and Actual Budgetary Basis – General Fund, and the Other Post Employment Benefits – Schedule of Funding Progress, and the Texas County and District Retirement System – Schedule of Funding Progress are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This required supplementary information is the responsibility of the County's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

August 12, 2011

***Harris County, Texas
Management's Discussion and Analysis (Unaudited)***

This section of the Harris County, Texas (the "County") Comprehensive Annual Financial Report ("CAFR") presents a narrative overview and analysis of the financial activities of the primary government for the fiscal year ended February 28, 2011. Please read it in conjunction with the County's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

Government-wide

The total government-wide assets of the County exceeded the liabilities at February 28, 2011 by \$10,362,454,916. This is a decrease of \$87,624,282 from the previous year when assets exceeded liabilities by \$10,450,079,198.

Total net assets of the primary government are comprised of the following:

- (1) Capital assets, net of related debt, of \$9,276,732,817 include land, improvements, buildings, infrastructure, intangible assets, construction in progress, and other capital assets, net of accumulated depreciation/amortization, and is reduced by outstanding debt, net of unspent proceeds, related to the purchase or construction of capital assets.
- (2) Net assets of \$1,124,234,075 are restricted by constraints imposed from outside the County such as debt obligations, laws, or regulations, including restrictions related to Toll Road and Mobility funds.
- (3) Unrestricted net assets of negative \$38,511,976. Unrestricted net assets in Governmental Activities was negative \$46,700,686, which was primarily due to an increase in bonds payable and OPEB. These long-term liabilities are not generally paid with current resources.

Governmental Fund Financial Statements

- As of February 28, 2011, County governmental funds reported combined fund balances of \$955,353,432. This reflects an increase of \$42,389,239 from the previous fiscal year, primarily due to an increase in commercial paper issuance and funds reserved for Mobility in the current year. Combined unreserved fund balances of \$365,152,928 for fiscal year 2011 shows an increase of \$43,913,109 from the prior year.
- The General Fund is used to account for the general operations of the County, limited-tax permanent improvement debt service of the County, public improvement contingencies, and the mobility program. At the end of the fiscal year, the unreserved fund balance of the County's General Fund was negative \$22,289,770. The General Fund's undesignated fund balance decreased \$45,951,526 from the prior year and expenditures exceeded revenue by \$127,825,854. The fiscal year 2011 operating loss and the negative undesignated fund balance reflect the County's use of its reserves. This negative situation was primarily caused by a decrease in property taxable valuations and the related decrease in tax revenue which resulted from a weakened economy. The General Fund had a reserved fund balance of \$341,139,263 at February 28, 2011.
- During the fiscal year, the Harris County Toll Road Authority transferred \$120 million of surplus toll road revenue to the mobility program which is accounted for within the General Fund. Mobility program monies are restricted by Section 284.0031 of the Texas Transportation Code for the study, design, construction, maintenance, repair or operation of roads, streets, highways, or other related facilities. The mobility program may not be used for the general operations of the County. The General Fund's unrestricted cash and investment balance at February 28, 2011 includes \$169.8 million that belongs to the mobility program. Because of the legal restrictions imposed on the mobility program, \$133,190,993 of the General Fund balance is reserved for mobility at February 28, 2011.
- The Roads Capital Projects fund is classified as a major fund. It had a fund balance of \$185,042,011 of which \$82,438,054 was reserved for encumbrances as well as prepaids, and the remaining \$102,603,957 is designated for capital projects.

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

- The nonmajor governmental funds had total combined fund balances of \$451,461,928 at February 28, 2011. Of this amount, \$284,838,741 is unreserved with \$142,492,440 designated for capital projects. The remaining \$166,623,187 is reserved mainly for encumbrances, debt service, advances and prepaids.

Long-Term Debt

The County issues debt to finance an ongoing capital improvement program. During fiscal year 2010-2011, the County issued \$211 million in commercial paper and \$825 million in bonds primarily to defease and refund outstanding bonds. Note 10 to the financial statements provides details of long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements, which are comprised of the following 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. This report also contains other supplementary information.

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

The Statement of Net Assets presents information on all County assets and liabilities, with the difference between the two representing net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the financial condition of the County.

The Statement of Activities presents information that indicates how net assets changed during the 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.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include administration of justice, parks, county administration, health and human services, flood control, tax administration, and roads and bridges. The business-type activities of the County include toll road, subscriber access, parking facilities, and sheriff's commissary fund activities.

Component units are included in the basic financial statements. Component units are legally separate organizations for which the elected officials of the County are financially accountable, or the relationship to the County is such that exclusion would cause the County's financial statements to be misleading or incomplete. The County's component units have been reported as blended with the County as the primary government or as discrete (separate) component units, as appropriate. The following component units have been included in this year's report: Harris County Flood Control District, Harris County Juvenile Board, Harris County Sports and Convention Corporation, Harris County Hospital District, Harris County Housing Finance Corporation, Mental Health and Mental Retardation Authority of Harris County, Harris County Industrial Development Corporation, Children's Assessment Center Foundation, Inc., Harris County Health Facilities Development Corporation, Harris County Cultural Education Facilities Finance Corporation, and Friends of Countypets. For more detailed information on these component units, refer to Note 1A of the basic financial statements.

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 County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary 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 fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County reports 65 governmental funds, which in some cases are aggregated individual funds (e.g., grant funds). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the major governmental funds. Data from other governmental funds are combined into a single aggregated presentation.

Proprietary funds are used for two purposes: Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Also, the County uses enterprise funds to account for toll road operations, computer access to certain District Clerk records, acquisition, operation and maintenance of parking facilities, and operation of a commissary for jail inmates. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its maintenance of County vehicles, operation of County radios, operation of the printing shop services provided by inmates, workers compensation, health insurance and other risk management activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Toll Road Authority fund is considered to be a major fund of the County. The Subscriber Access, Parking Facilities, and Sheriff's Commissary funds are combined as nonmajor enterprise funds for the basic financial statements, but are presented individually in the fund financial statements that follow the required supplementary information. The County's internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County's fiduciary funds are comprised of 18 agency funds. Agency funds are used to report resources held by the County in a purely custodial capacity (assets equal liabilities) and therefore do not involve measurement of results of operations.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 41 of this report.

Required Supplementary Information for the County's General Fund budgetary schedule is presented herein. The County adopts an annual budget for this fund. A budgetary comparison schedule, which includes the original and final amended budget and actual figures, has been provided to demonstrate compliance with this

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

budget. Also presented in this section are the Schedule of Funding Progress for Other Post Employment Benefits and the Schedule of Funding Progress for the Texas County and District Retirement System. Required supplementary information can be found beginning on page 93 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$10,362,454,916 for fiscal year 2011 and \$10,450,079,198 for fiscal year 2010. Expenses exceeded revenues during the current year, decreasing net assets by \$87,624,282.

Condensed Statement of Net Assets

February 28, 2011

(Amounts in thousands)

Primary Government

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 1,436,426	\$ 1,367,462	\$ 2,803,888
Capital assets	11,941,803	2,090,127	14,031,930
Total assets	<u>13,378,229</u>	<u>3,457,589</u>	<u>16,835,818</u>
Current and other liabilities	366,097	76,760	442,857
Long-term liabilities (including current portion)	3,268,550	2,761,956	6,030,506
Total liabilities	<u>3,634,647</u>	<u>2,838,716</u>	<u>6,473,363</u>
Net assets:			
Invested in capital assets, net of related debt	9,488,369	(211,636)	9,276,733
Restricted net assets	301,914	822,320	1,124,234
Unrestricted net assets	(46,701)	8,189	(38,512)
Total net assets	<u>\$ 9,743,582</u>	<u>\$ 618,873</u>	<u>\$ 10,362,455</u>

Condensed Statement of Net Assets

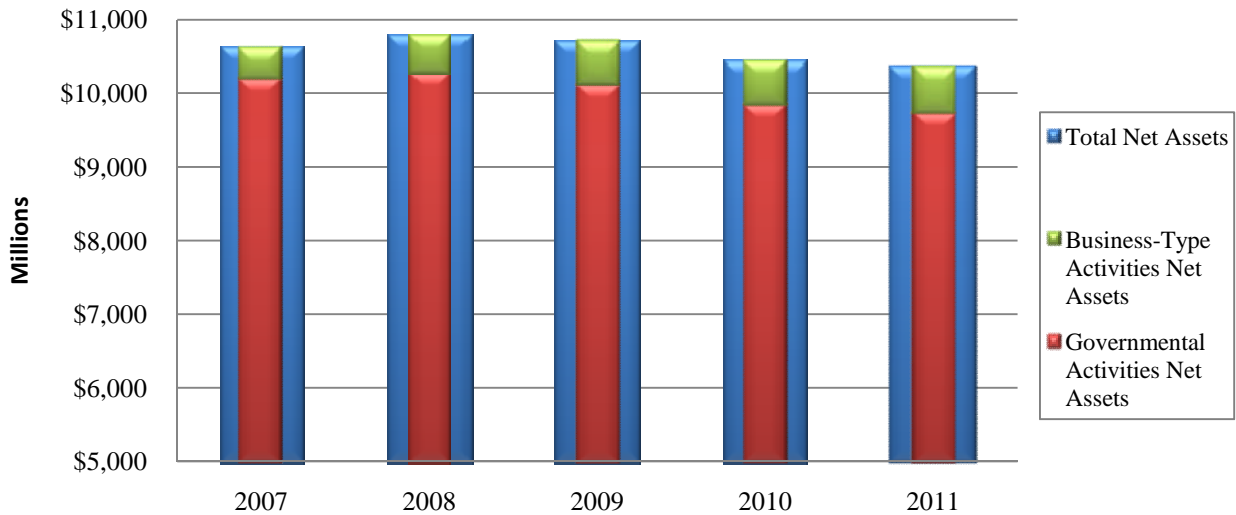
February 28, 2010

(Amounts in thousands)

Primary Government

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 1,396,408	\$ 1,493,961	\$ 2,890,369
Capital assets	11,887,641	1,994,752	13,882,393
Total assets	<u>13,284,049</u>	<u>3,488,713</u>	<u>16,772,762</u>
Current and other liabilities	369,949	86,759	456,708
Long-term liabilities (including current portion)	3,070,721	2,795,254	5,865,975
Total liabilities	<u>3,440,670</u>	<u>2,882,013</u>	<u>6,322,683</u>
Net assets:			
Invested in capital assets, net of related debt	9,524,096	(216,112)	9,307,984
Restricted net assets	257,857	812,964	1,070,821
Unrestricted net assets	61,426	9,848	71,274
Total net assets	<u>\$ 9,843,379</u>	<u>\$ 606,700</u>	<u>\$ 10,450,079</u>

Change in Net Assets



The largest portion of the County's current fiscal year net assets, \$9,276,732,817, is invested in capital assets (e.g. land, improvements, buildings, equipment, and infrastructure) less any related outstanding debt used to acquire those assets. The primary use of these capital assets is to provide services to citizens; therefore, these assets are not available for future spending. Although the County'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 decrease of \$31,251,071 in the County's net assets invested in capital assets, net of related debt, is comprised of \$149,537,480 increase in capital assets with an offsetting increase of \$70,319,352 in debt related to capital assets and a decrease of unspent debt proceeds of \$110,469,199.

Another portion of the County's current fiscal year net assets, negative \$38,511,976, represents unrestricted net assets, which because of the negative balance are not available to meet the County's ongoing unrestricted obligations to citizens and creditors. The remaining balance of net assets represents resources that are subject to external restrictions on how they may be used. A large portion of the restricted net assets, \$520,142,101 is for use for the ongoing obligations of the Toll Road Authority. Restricted net assets of \$133,190,993 are related to the mobility program and are restricted because of legal constraints imposed by the Texas Transportation Code; these funds can only be used for mobility purposes. Other restrictions include \$382,985,802 for debt service payments, \$84,610,209 for capital projects, \$467,597 for grant programs and \$2,837,373 for legislative restricted net assets.

At the end of the current fiscal year, the County reported positive net assets in two of the three categories of net assets for its governmental activities and positive net assets in two of the three categories for its business-type activities. Net assets invested in capital assets, net of related debt for business-type activities was negative \$211,635,959 primarily due to the refunding of debt extending the repayment of the debt beyond the useful life of the assets.

The following table indicates changes in net assets for governmental and business-type activities:

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

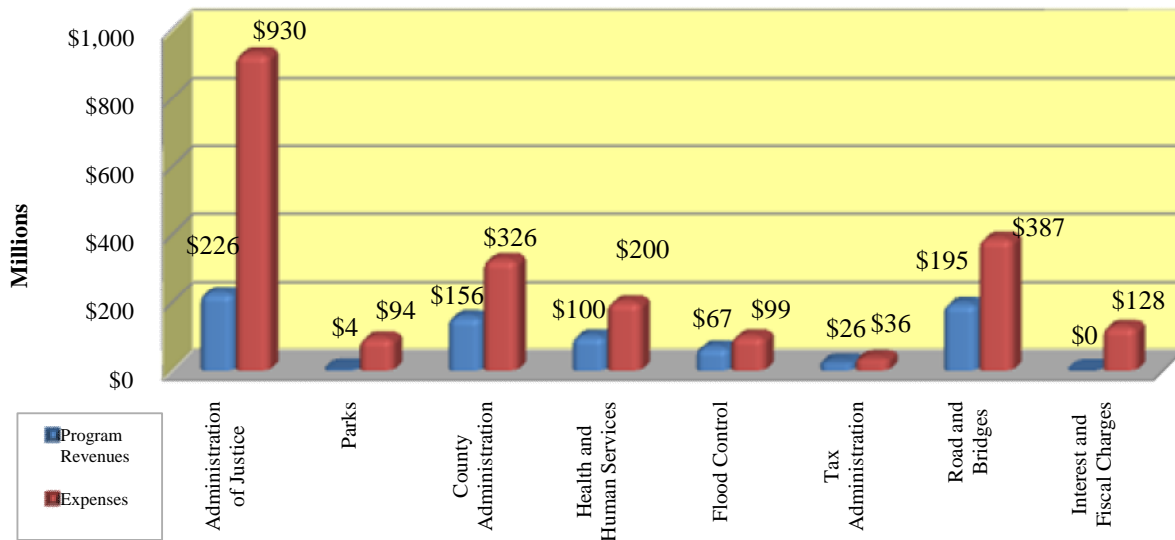
	Condensed Statement of Activities		
	(In Thousands)		
	For the Year Ended February 28, 2011		
	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
REVENUES			
Program revenues:			
Charges for Services	\$ 255,893	\$ 489,097	\$ 744,990
Operating Grants and Contributions	236,859	852	237,711
Capital Grants and Contributions	280,755	3,063	283,818
General revenues:			
Taxes -levied for General Purposes	976,341	-	976,341
Taxes -levied for Debt Services	151,337	-	151,337
Hotel Occupancy Tax	23,312	-	23,312
Investment Earnings	6,796	13,542	20,338
Miscellaneous	45,269	953	46,222
Total revenues	<u>1,976,562</u>	<u>507,507</u>	<u>2,484,069</u>
EXPENSES			
Administration of Justice	929,889	-	929,889
Parks	94,145	-	94,145
County Administration	326,162	-	326,162
Health and Human Services	199,518	-	199,518
Flood Control	99,305	-	99,305
Tax Administration	36,152	-	36,152
Roads and Bridges	387,325	-	387,325
Interest and Fiscal Charges	127,520	-	127,520
Toll Road	-	363,266	363,266
Subscriber Access	-	83	83
Parking Facilities	-	889	889
Sheriff's Commissary	-	7,439	7,439
Total expenses	<u>2,200,016</u>	<u>371,677</u>	<u>2,571,693</u>
Excess (deficiency) before other items and transfers	(223,454)	135,830	(87,624)
Transfers	123,657	(123,657)	-
Change in net assets	(99,797)	12,173	(87,624)
Net assets - beginning	9,843,379	606,700	10,450,079
Net assets - ending	<u>\$ 9,743,582</u>	<u>\$ 618,873</u>	<u>\$ 10,362,455</u>

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

	Condensed Statement of Activities		
	(In Thousands)		
	For the Year Ended February 28, 2010		
	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
REVENUES			
Program revenues:			
Charges for Services	\$ 263,017	\$ 464,368	\$ 727,385
Operating Grants and Contributions	224,108	1,164	225,272
Capital Grants and Contributions	71,644	7,221	78,865
General revenues:			
Taxes-levied for General Purposes	1,033,302	-	1,033,302
Taxes-levied for Debt Services	171,768	-	171,768
Hotel Occupancy Tax	21,341	-	21,341
Investment Earnings	19,410	33,679	53,089
Miscellaneous	57,322	1,954	59,276
Total revenues	<u>1,861,912</u>	<u>508,386</u>	<u>2,370,298</u>
EXPENSES			
Administration of Justice	961,588	-	961,588
Parks	91,594	-	91,594
County Administration	342,683	-	342,683
Health and Human Services	220,090	-	220,090
Flood Control	103,435	-	103,435
Tax Administration	38,137	-	38,137
Roads and Bridges	381,380	-	381,380
Interest and Fiscal Charges	127,221	-	127,221
Toll Road	-	360,048	360,048
Subscriber Access	-	580	580
Parking Facilities	-	839	839
Sheriff's Commissary	-	8,564	8,564
Total expenses	<u>2,266,128</u>	<u>370,031</u>	<u>2,636,159</u>
Excess (deficiency) before other items and transfers	(404,216)	138,355	(265,861)
Transfers	128,989	(128,989)	-
Change in net assets	(275,227)	9,366	(265,861)
Net assets - beginning	10,118,606	597,334	10,715,940
Net assets - ending	<u>\$ 9,843,379</u>	<u>\$ 606,700</u>	<u>\$ 10,450,079</u>

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

Program Revenues and Expenses - Governmental Activities

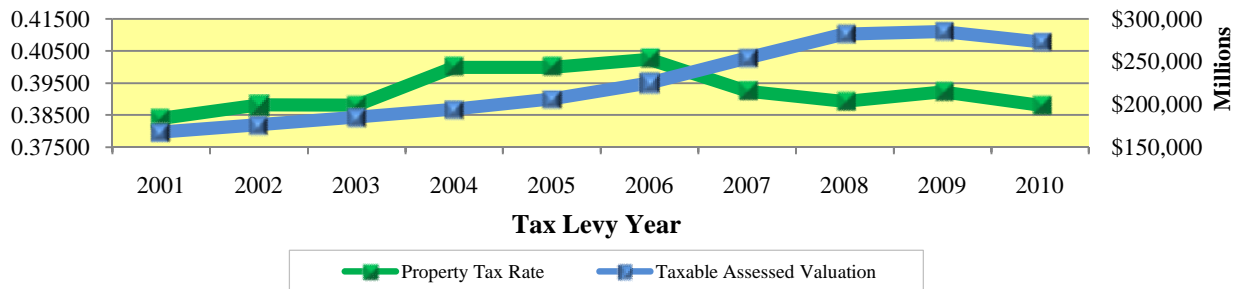


Revenues

For fiscal year ended February 28, 2011, revenues for the primary government totaled \$2,484,068,995. The revenues are categorized by activity type: governmental activities totaled \$1,976,562,148 and business-type activities totaled \$507,506,847.

Property and Hotel Occupancy Taxes of \$1,150,989,577 were one of the largest revenue sources for governmental activities and 46% of total revenues, which is a \$75M decrease from prior year taxes of \$1,226,410,742. The tax rate was \$.38805 per \$100 of assessed value for fiscal year 2011. The taxable assessed value decreased in fiscal year 2011 to \$273,032,156,000 from the taxable assessed value in the prior fiscal year of \$285,090,656,000.

Historical Comparison of the Property Tax Rate versus Taxable Assessed Valuation

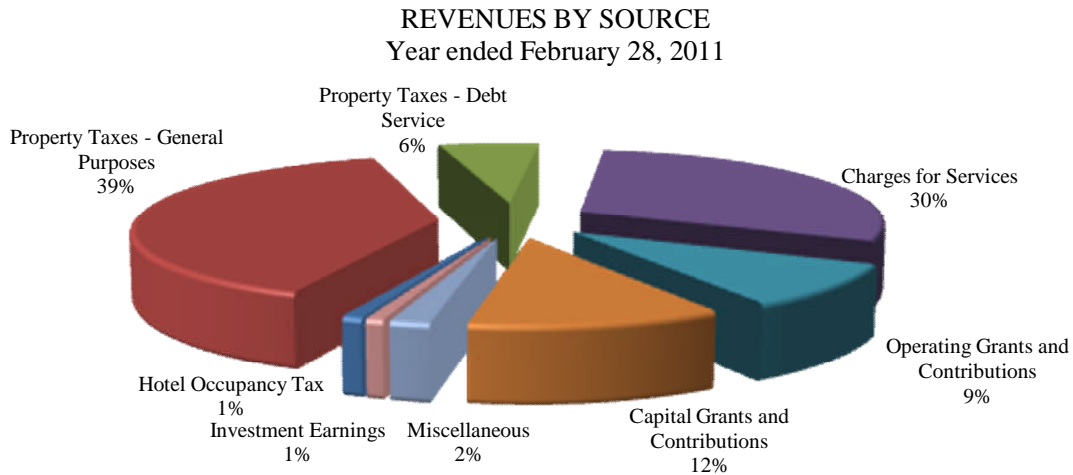


Program revenues are derived from the program itself and reduce the cost of the function to the County. Total program revenues were \$1,266,520,143 or 51% of total revenues, which increased \$234,997,531 compared to the prior year. The largest portion of program revenues is Charges for Services of \$744,990,466 (30%). Of that \$255,893,237 is from governmental activities, which represents fees collected by the tax collector, automobile registration, and charges for patrol services. The business-type Charges for Services were \$489,097,229, which are primarily toll road receipts. The other portions of program revenues are Operating Grants and Contributions of \$237,711,299 (9%) and Capital Grants and Contributions of \$283,818,378 (12%).

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

Capital Grants and Contributions increased \$204,952,924 from the prior year, primarily due an increase in contributions from the Army Corps of Engineers in conjunction with work on the Brays Bayou project and an increase in road dedications and donations, which represent receipts from various federal, state, and local agencies and developers.

General revenues are revenues that cannot be assigned to a specific function. They consist of taxes (previously discussed), Earnings on Investments of \$20,337,319 (1% of total revenues), and Miscellaneous income of \$46,221,956 (2% of total revenues).



Expenses

For fiscal year ended February 28, 2011, expenses for the primary government totaled \$2,571,693,277. These expenses are divided by activity type: governmental activities of \$2,200,015,461 and business-type activities of \$371,677,816.

The County's largest governmental activities function is Administration of Justice. The main components of this function are the civil and criminal courts and the Sheriff's Office. Total expenses for this activity were \$929,888,978 and were 36% of total expenses. The expenses can be attributed to salaries, fringe benefits, costs of housing and trial of inmates, and fuel costs for patrol vehicles.

The expenses for the Roads and Bridges governmental activities function were \$387,325,558 or 15% of total expenses. The County owns and maintains over six thousand miles of roads and bridges.

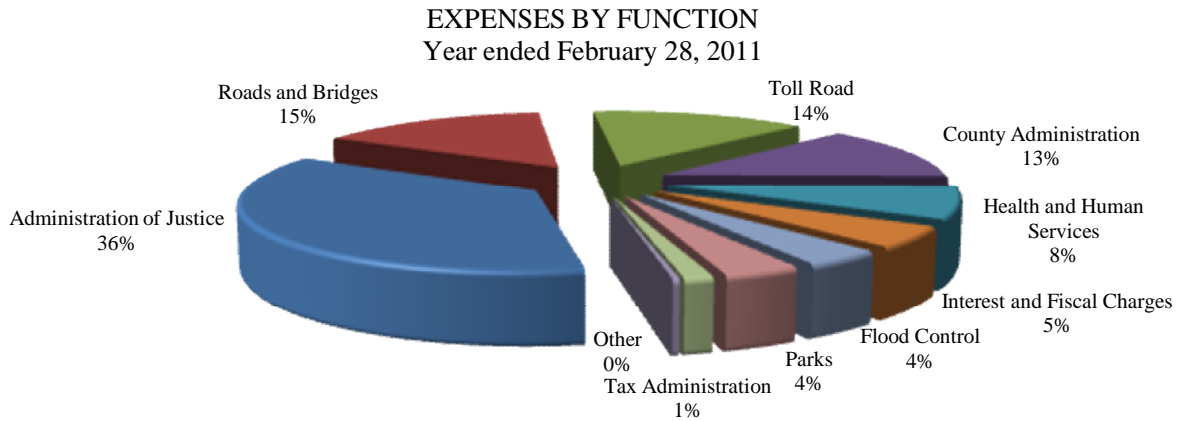
The County Administration governmental activities function expenses were \$326,161,689 or 13% of total expenses. This is a decrease of \$16.5 million from the prior fiscal year due to closer monitoring of expenditures and personnel reductions that occurred during the year.

The Toll Road business-type activities function expenses were \$363,266,054 or 14% of total expenses. 35% is attributable to interest and fees incurred on outstanding debt balances. Expenses for other business-type activities were \$8,411,762 and were less than 1% of total expenses. These activities are for Subscriber Access, Parking Facilities and Sheriff's Commissary.

The Interest and Fiscal Charges governmental activities functional expenses of \$127,520,446 constituted 5% of total expenses and increased \$300,076.

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

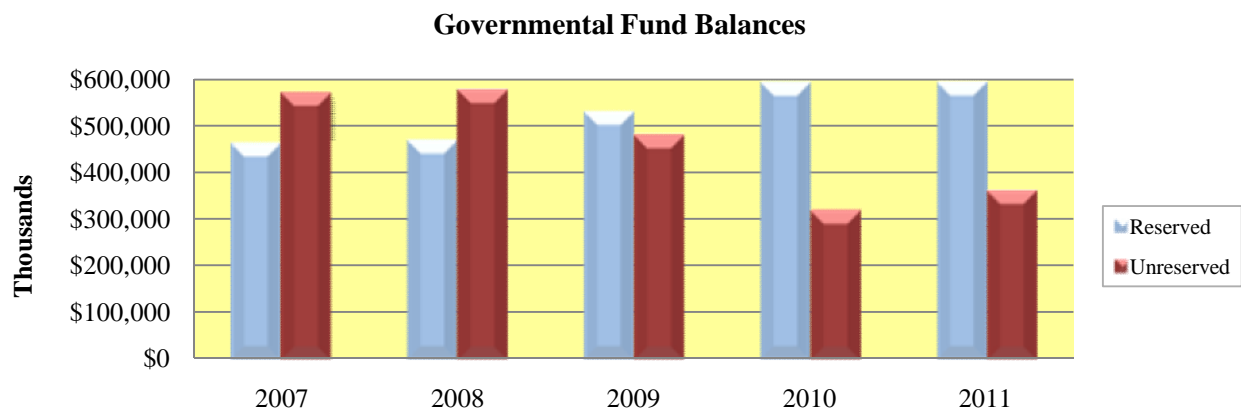
The remaining governmental activities functions are Health and Human Services with expenses of \$199,517,570 or 8%, which includes operation of the County libraries, Flood Control with expenses of \$99,304,877 or 4%, Parks with expenses of \$94,144,575 or 4%, and Tax Administration with expenses of \$36,151,768 or 1%.



FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund is the County's chief operating fund and major governmental fund. For the year ended February 28, 2011, the General Fund reported a net fund balance decrease of \$23,877,250. The General Fund total fund balance is \$318,849,493 for the fiscal year of which \$341,139,263 is reserved for encumbrances, debt service payments, prepaids, inventories, notes receivable, legislative issues, the Mobility program and imprest cash. The remaining negative \$22,289,770 is unreserved.

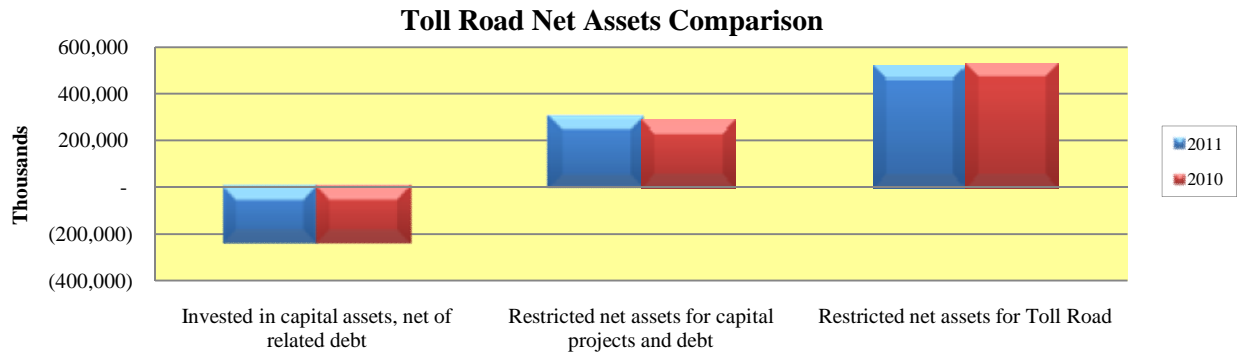
The Roads Capital Projects fund is a major governmental fund. This is primarily due to a portion of unspent bond proceeds being available for investment. As of February 28, 2011 the total fund balance was \$185,042,011 with \$82,438,054 being reserved for encumbrances and prepaids.



The Toll Road Fund was the County's only major proprietary fund at February 28, 2011. This fund is used to account for the acquisition, operation, and maintenance of County toll roads. As of February 28, 2011, net assets invested in capital assets, net of related debt was a negative \$231,001,927, and restricted net assets were

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

\$822,320,076. Net assets invested in capital assets, net of related debt increased from a February 28, 2010 balance of negative \$234,840,099. Net assets invested in capital assets net of related debt for both years was negative, primarily due to the refunding of debt which extended the repayment of the debt beyond the useful life of the assets. Restricted net assets are considered restricted due to debt obligations.

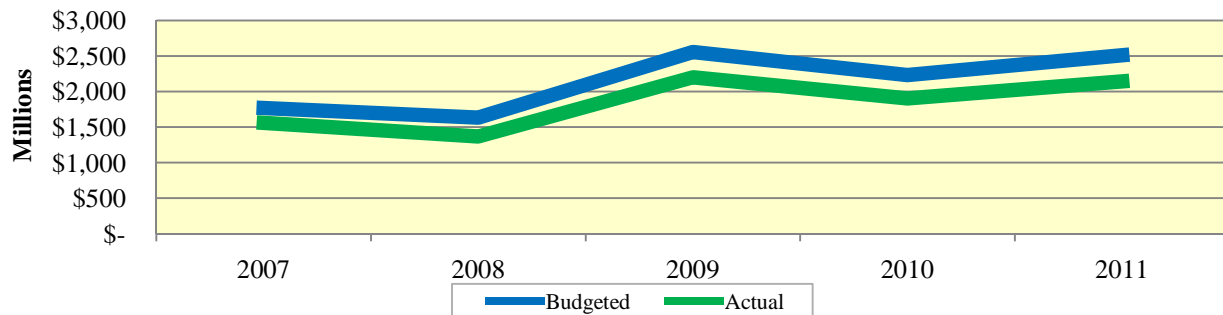


GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget reflected an increase of \$634,555,352 in available resources. This increase is primarily due to issuance of refunding bonds. Differences between the original budget and the final amended budget resulted in \$634,553,694 increase in appropriations.

During the year, budgetary estimates exceeded actual available resources by \$5,931,933. This is primarily due to less beginning cash and investments rolling from the previous year than anticipated. Actual expenditures were \$370,469,381 less than budgetary estimates. This difference is primarily due to a decrease in expenditures as a result of the carry forward of budget for capital projects for roads and bridges and maintenance funds in the precincts. Budget variances are not expected to impact future services or liquidity.

BUDGETED EXPENDITURES TO ACTUAL
Cash Basis Analysis



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The County's capital assets, net of accumulated depreciation/amortization, for its governmental and business-type activities as of February 28, 2011, was \$14,031,930,398, an increase of \$149,537,480 from capital assets reported February 28, 2010 of \$13,882,392,918. These capital assets include land, construction in progress, land improvements, buildings, park improvements and facilities, infrastructure, equipment, other tangible assets, as well as intangible assets such as easements and the County's license agreement to operate toll facilities on the Katy Freeway.

***Harris County, Texas
Management's Discussion and Analysis (Unaudited)***

Major capital asset events during the current fiscal year included the following:

- The County has several ongoing capital improvement projects, including a new Plaza/Jury Assembly Facility with a tunnel connection to the Civil Justice Center, John Phelps Courthouse (Pasadena), and restoration of the 1910 Civil Courts Building.
- The Flood Control District participated in ongoing flood damage reduction and mitigation projects in cooperation with the Federal Emergency Management Agency and the United States Army Corps of Engineers.
- The Harris County Toll Road Authority has several ongoing projects, including the Sam Houston Tollway North/East.

	Balance February 28, 2011	Balance February 28, 2010
<u>Governmental Activities:</u>		
Land	\$ 3,972,031,927	\$ 3,893,353,019
Construction in progress	341,793,216	426,290,166
Intangible assets - water rights	2,400,000	-
Intangible assets - software & licenses	33,418,586	-
Land improvements	5,684,597	11,010,787
Infrastructure	10,324,050,791	10,061,280,217
Park facilities	159,753,616	143,463,317
Flood control projects	705,436,470	652,847,783
Buildings	1,612,268,711	1,575,420,472
Equipment	311,804,773	285,231,758
	<u>17,468,642,687</u>	<u>17,048,897,519</u>
Less: Accumulated depreciation	(5,526,839,237)	(5,161,256,932)
Total governmental activities	<u>\$ 11,941,803,450</u>	<u>\$ 11,887,640,587</u>

	Balance February 28, 2011	Balance February 28, 2010
<u>Business-type Activities:</u>		
Land	\$ 309,521,182	\$ 301,382,032
Construction in progress	248,450,760	414,656,336
Intangible assets - license agreement	238,140,451	237,500,000
Land improvements	4,346,766	4,246,045
Infrastructure	2,098,798,007	1,776,820,536
Other tangible assets	22,052,955	21,598,642
Buildings	36,970,545	38,005,617
Equipment	62,967,047	59,873,598
	<u>3,021,247,713</u>	<u>2,854,082,806</u>
Less: Accumulated depreciation	(931,120,765)	(859,330,475)
Total business-type activities	<u>\$ 2,090,126,948</u>	<u>\$ 1,994,752,331</u>

For further information regarding capital assets, see Note 6 to the financial statements.

Long-term Liabilities. At February 28, 2011, the County had total long-term liabilities outstanding of \$6,030,505,127. County officials, citizens and investors will find the ratio of bonded debt to taxable value of property and the amount of bonded debt per capita as useful indicators of the County's debt position. General

Harris County, Texas
Management's Discussion and Analysis (Unaudited)

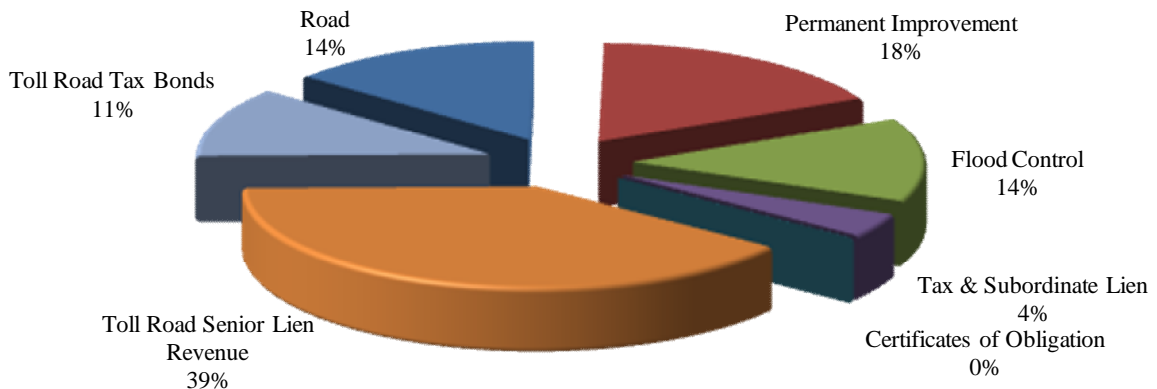
bonded debt represented 0.96% and 0.87% of taxable value of property for fiscal year 2011 and 2010, respectively. Debt per capita was \$1,408 and \$1,401 for fiscal year 2011 and 2010, respectively.

	Outstanding at February 28, 2011	Outstanding at February 28, 2010
Governmental Activities:		
Bonds payable	\$ 2,616,505,031	\$ 2,472,429,606
Commercial paper payable	343,163,000	332,048,000
Compensatory time payable	35,620,091	38,888,981
Obligations under capital leases	19,448,103	21,368,077
Judgments payable	4,900,000	5,353,417
Loan payable	5,619,676	9,642,857
OPEB obligation	240,428,712	188,310,144
Pollution remediation obligation	2,864,732	2,680,610
Total governmental activities	<u>\$ 3,268,549,345</u>	<u>\$ 3,070,721,692</u>
Business-type Activities:		
Bonds payable	\$ 2,704,676,608	\$ 2,783,578,440
Derivative instruments - interest rate swaps	42,580,963	-
Compensatory time payable	1,231,038	1,316,727
Obligations under capital leases	186,001	-
OPEB obligation	13,281,172	10,358,368
Total business-type activities	<u>\$ 2,761,955,782</u>	<u>\$ 2,795,253,535</u>

The County has a continuing goal to sustain the County's debt rating. The bond rating services of Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch IBCA, Inc. have assigned the County long term bond ratings of Aaa, AAA, and AAA, respectively.

Please refer to Note 10 to the financial statements for further information on the County's long-term liabilities. See Note 13 to the financial statements for further information on the County's Other Post Employment Benefits (OPEB) plan.

Bonds Payable by Type as of February 28, 2011



Harris County, Texas
Management's Discussion and Analysis (Unaudited)

ECONOMIC FACTORS

The unemployment rate for Harris County for calendar year 2010 was 8.3%. This is an unfavorable increase from the prior year rate of 8.1%. The state unemployment rate for calendar year 2010 was 8.0%.

THE NEXT FISCAL YEAR

During the first quarter of fiscal year 2012, \$34 million was transferred to the County's General Operations Fund from the Mobility Fund for eligible mobility expenditures incurred in the County's general operations in prior fiscal years. The unrestricted cash balance in the County's General Operations Fund at June 30, 2011 was negative \$3.2 million versus \$320.4 million at June 30, 2010. The cash balance at June 30, 2011 includes \$138 million from a short term loan (due to) the Mobility Fund. Without the loan (due to) Mobility Fund, the June 30, 2011 unrestricted cash balance of the County's General Operations Fund would be a negative \$141 million. The General Operations Fund's undesignated fund balance at June 30, 2011 was a negative \$289,912,494 as compared with a negative \$286,199,609 balance at June 30, 2010. These balances are reported on a budgetary basis which is not in accordance with generally accepted accounting principles and are not audited.

On July 21, 2011, the County issued \$450,000,000 in Tax Anticipation Notes (TANS) to fund the County's cumulative cash flow deficit due to timing differences between expenditures and the receipt of tax revenue. TANS of \$450,000,000 was issued in June 2010 for the prior fiscal year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County'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, TEXAS
STATEMENT OF NET ASSETS
February 28, 2011

	Primary Government			Component Units
	Governmental Activities	Business- Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 413,481,679	\$ 7,959,169	\$ 421,440,848	\$ 88,465,730
Investments	591,229,984	430,592	591,660,576	174,110,125
Taxes receivable, net	32,731,835	-	32,731,835	34,494,000
Accounts receivable, net	67,444,845	56,296	67,501,141	84,050,068
Accrued interest receivable	15,497,690	1,333	15,499,023	-
Lease receivable	273,300	-	273,300	-
Due from other governmental units	5,262,444	-	5,262,444	-
Other receivables	112,467,646	403,756	112,871,402	6,693,949
Internal balances	(51,978,214)	51,978,214	-	-
Inventories, prepaids and other assets	8,844,153	301,456	9,145,609	65,774,992
Restricted:				
Cash and cash equivalents	151,726,538	45,207,717	196,934,255	782,147,766
Investments	40,758,211	1,162,298,068	1,203,056,279	-
Investments, held as collateral by others	-	15,000,000	15,000,000	-
Receivables, net	-	1,007,900	1,007,900	-
Accrued interest receivable	-	3,569,785	3,569,785	-
Other receivables, net	-	3,948,617	3,948,617	-
Prepaids and other assets	-	8,482,301	8,482,301	-
Deferred charges, net of amortization	19,865,533	23,521,855	43,387,388	-
Notes receivable	28,819,472	714,312	29,533,784	-
Deferred outflows	-	42,580,963	42,580,963	-
Capital assets:				
Land and construction in progress	4,313,825,143	557,971,942	4,871,797,085	69,664,954
Intangible assets, net of amortization (when applicable)	31,632,916	235,361,701	266,994,617	1,365,734
Other capital assets, net of depreciation	7,596,345,391	1,296,793,305	8,893,138,696	279,890,058
Total assets	<u>13,378,228,566</u>	<u>3,457,589,282</u>	<u>16,835,817,848</u>	<u>1,586,657,376</u>
LIABILITIES				
Vouchers payable and other current liabilities	251,730,237	775,474	252,505,711	202,671,846
Unearned revenue	70,082,945	-	70,082,945	269,756
Payable from restricted assets:				
Vouchers payable and other current liabilities	-	75,985,199	75,985,199	-
Current portion of long-term liabilities	-	99,044,560	99,044,560	-
Non-current portion of long-term liabilities	-	2,662,722,804	2,662,722,804	-
Accrued interest	44,283,950	-	44,283,950	634,000
Long-term liabilities:				
Due within one year	92,662,214	63,498	92,725,712	6,934,706
Due in more than one year	3,175,887,131	124,920	3,176,012,051	423,364,234
Total liabilities	<u>3,634,646,477</u>	<u>2,838,716,455</u>	<u>6,473,362,932</u>	<u>633,874,542</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,488,368,776	(211,635,959)	9,276,732,817	117,130,749
Restricted for:				
Debt service	137,052,754	245,933,048	382,985,802	-
Capital projects	28,365,282	56,244,927	84,610,209	51,152,663
Donor temporarily restricted	467,597	-	467,597	1,426,140
Legislative	2,837,373	-	2,837,373	-
Mobility program	133,190,993	-	133,190,993	-
Toll Road	-	520,142,101	520,142,101	-
Unrestricted	(46,700,686)	8,188,710	(38,511,976)	783,073,282
Total net assets	<u>\$ 9,743,582,089</u>	<u>\$ 618,872,827</u>	<u>\$ 10,362,454,916</u>	<u>\$ 952,782,834</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF ACTIVITIES
For The Year Ended February 28, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
Administration of Justice	\$ 929,888,978	\$ 137,539,684	\$ 88,735,375	\$ -	\$ (703,613,919)	-	\$ (703,613,919)	
Parks	94,144,575	3,144,370	359,232	-	(90,640,973)	-	(90,640,973)	
County Administration	326,161,689	45,199,816	61,837,374	49,303,041	(169,821,458)	-	(169,821,458)	
Health and Human Services	199,517,570	14,264,523	85,561,765	-	(99,691,282)	-	(99,691,282)	
Flood Control	99,304,877	751,233	-	66,333,737	(32,219,907)	-	(32,219,907)	
Tax Administration	36,151,768	25,659,510	-	-	(10,492,258)	-	(10,492,258)	
Road and Bridges	387,325,558	29,334,101	365,589	165,118,342	(192,507,526)	-	(192,507,526)	
Interest and Fiscal Charges	127,520,446	-	-	-	(127,520,446)	-	(127,520,446)	
Total governmental activities	<u>2,200,015,461</u>	<u>255,893,237</u>	<u>236,859,335</u>	<u>280,755,120</u>	<u>(1,426,507,769)</u>	<u>-</u>	<u>(1,426,507,769)</u>	
Business-type activities:								
Toll Road	363,266,054	481,346,283	851,964	3,063,258	-	\$ 121,995,451	121,995,451	
Subscriber Access	83,278	248,639	-	-	-	165,361	165,361	
Parking Facilities	889,347	387,295	-	-	-	(502,052)	(502,052)	
Sheriff's Commissary	7,439,137	7,115,012	-	-	-	(324,125)	(324,125)	
Total business-type activities	<u>371,677,816</u>	<u>489,097,229</u>	<u>851,964</u>	<u>3,063,258</u>	<u>-</u>	<u>121,334,635</u>	<u>121,334,635</u>	
Total primary government	<u>\$ 2,571,693,277</u>	<u>\$ 744,990,466</u>	<u>\$ 237,711,299</u>	<u>\$ 283,818,378</u>	<u>(1,426,507,769)</u>	<u>121,334,635</u>	<u>(1,305,173,134)</u>	
Component units:								
MHMRA	\$ 169,837,222	\$ 36,763,945	\$ 116,570,063	\$ -				\$ (16,503,214)
Hospital District	1,497,363,000	277,274,000	184,849,000	506,556,000				(528,684,000)
Other component units	4,793,981	2,430,836	1,298,140	101,399				(963,606)
Total component units	<u>\$ 1,671,994,203</u>	<u>\$ 316,468,781</u>	<u>\$ 302,717,203</u>	<u>\$ 506,657,399</u>				<u>(546,150,820)</u>
General revenues:								
Taxes:								
Property taxes levied for General Purposes					976,340,934	-	976,340,934	504,496,000
Property taxes levied for Debt Service					151,337,019	-	151,337,019	-
Hotel Occupancy Tax					23,311,624	-	23,311,624	-
Earnings on Investments					6,795,566	13,541,753	20,337,319	7,298,449
Miscellaneous					45,269,313	952,643	46,221,956	30,757,289
Gain on disposal of capital assets					-	-	-	1,482,719
Transfers					123,656,600	(123,656,600)	-	-
Total general revenues and other items					<u>1,326,711,056</u>	<u>(109,162,204)</u>	<u>1,217,548,852</u>	<u>544,034,457</u>
Change in net assets					(99,796,713)	12,172,431	(87,624,282)	(2,116,363)
Net assets - beginning (see Note 1. A. on page 45)					9,843,378,802	606,700,396	10,450,079,198	954,899,197
Net assets - ending					<u>\$ 9,743,582,089</u>	<u>\$ 618,872,827</u>	<u>\$ 10,362,454,916</u>	<u>\$ 952,782,834</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
February 28, 2011

	<u>General</u>	<u>Roads Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments:				
Cash and cash equivalents	\$ 108,385,569	\$ 63,016,706	\$ 192,826,002	\$ 364,228,277
Investments	116,387,638	134,304,856	260,394,435	511,086,929
Receivables:				
Taxes, net	29,394,834	-	3,337,001	32,731,835
Accounts, net	7,242,625	3,840,437	53,767,841	64,850,903
Accrued interest	9,049,234	340,087	5,892,704	15,282,025
Lease	273,300	-	-	273,300
Other, net	65,344,916	-	44,447,523	109,792,439
Due from other funds	30,036,137	-	26,876,749	56,912,886
Inventories	1,980,380	-	2,044,333	4,024,713
Prepays and other assets	2,987,992	614,385	3,908,504	7,510,881
Advances to other funds	40,000	-	12,585,000	12,625,000
Restricted cash and cash equivalents	95,349,557	-	56,376,981	151,726,538
Restricted investments	21,683,814	-	19,074,397	40,758,211
Notes receivable	28,379,252	-	440,220	28,819,472
Total assets	<u>\$ 516,535,248</u>	<u>\$ 202,116,471</u>	<u>\$ 681,971,690</u>	<u>\$ 1,400,623,409</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Vouchers payable	\$ 35,259,955	\$ 15,589,704	\$ 48,621,919	\$ 99,471,578
Accrued payroll and compensated absences	79,378,838	-	6,929,327	86,308,165
Retainage payable	1,052,535	1,484,756	4,857,991	7,395,282
Due to other funds	240,046	-	57,739,909	57,979,955
Other liabilities	67,184	-	8,981	76,165
Advances from other funds	31,125,780	-	32,660,413	63,786,193
Deferred revenue	50,561,417	-	79,691,222	130,252,639
Total liabilities	<u>197,685,755</u>	<u>17,074,460</u>	<u>230,509,762</u>	<u>445,269,977</u>
Fund balances:				
Reserved for:				
Encumbrances	51,083,025	81,823,669	89,477,884	222,384,578
Debt service	120,212,803	-	62,184,921	182,397,724
Imprest fund	427,445	-	113,280	540,725
Legislative	2,837,373	-	-	2,837,373
Inventory	1,980,380	-	-	1,980,380
Prepays	2,987,992	614,385	1,794,505	5,396,882
Mobility program	133,190,993	-	-	133,190,993
Advances	40,000	-	12,585,000	12,625,000
Notes receivable	28,379,252	-	-	28,379,252
Grant programs	-	-	467,597	467,597
Unreserved:				
Designated for capital projects	-	102,603,957	142,492,440	245,096,397
Undesignated - general fund	(22,289,770)	-	-	(22,289,770)
Undesignated - special revenue funds	-	-	148,474,089	148,474,089
Undesignated - capital project funds	-	-	(6,127,788)	(6,127,788)
Total fund balances	<u>318,849,493</u>	<u>185,042,011</u>	<u>451,461,928</u>	<u>955,353,432</u>
Total liabilities and fund balances	<u>\$ 516,535,248</u>	<u>\$ 202,116,471</u>	<u>\$ 681,971,690</u>	<u>\$ 1,400,623,409</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
February 28, 2011

Total fund balances for governmental funds \$ 955,353,432

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 (excluding internal service fund capital assets) consist of:

Land	\$ 3,971,772,927	
Construction in progress	341,793,216	
Intangible assets - water rights	2,400,000	
Intangible assets - software and licenses, net of \$4,185,670 accumulated amortization	29,232,916	
Land improvements, net of \$798,258 accumulated depreciation	4,886,339	
Infrastructure, net of \$4,580,245,962 accumulated depreciation	5,743,804,829	
Parks, net of \$32,875,857 accumulated depreciation	126,877,759	
Flood control projects, net of \$262,197,053 accumulated depreciation	443,239,417	
Buildings, net of \$440,457,053 accumulated depreciation	1,170,343,090	
Equipment and vehicles, net of \$170,143,567 accumulated depreciation	<u>90,637,366</u>	
Total capital assets		11,924,987,859

Long-term assets are not recognized in the current period and accordingly are not reported as fund assets. Balances as of February 28, 2011 were:

Deferred charges	<u>19,865,533</u>	
		19,865,533

Long-term liabilities applicable to Harris County'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 (excluding internal service fund liabilities, where applicable) as of February 28, 2011 were:

Accrued interest on bonds and loans	(44,283,950)	
Bonds payable	(2,616,505,031)	
Judgments payable	(4,900,000)	
Loan payable	(5,619,676)	
Capital leases	(19,448,103)	
Commercial paper payable	(343,163,000)	
Compensated absences	(35,302,225)	
OPEB obligation	(240,428,712)	
Pollution remediation obligation	<u>(2,864,732)</u>	
		(3,312,515,429)

Internal service funds are used by the County. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. Internal service fund net assets are:

95,051,091

Some of the County'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.

60,839,603

Total net assets of governmental activities \$ 9,743,582,089

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended February 28, 2011

	<u>General</u>	<u>Roads Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,020,224,909	\$ -	\$ 146,791,476	\$ 1,167,016,385
Charges for services	190,571,842	-	14,133,988	204,705,830
User fees	2,841,380	-	-	2,841,380
Fines and forfeitures	18,628,729	-	-	18,628,729
Lease revenue	1,885,937	-	199,499	2,085,436
Intergovernmental	40,420,672	55,607,364	263,993,359	360,021,395
Earnings on investments	1,616,583	1,469,769	2,433,201	5,519,553
Miscellaneous	45,319,992	5,917,187	23,451,020	74,688,199
Total revenues	<u>1,321,510,044</u>	<u>62,994,320</u>	<u>451,002,543</u>	<u>1,835,506,907</u>
EXPENDITURES				
Current operating:				
Administration of Justice	812,628,336	-	68,963,295	881,591,631
Parks	53,681,275	-	17,446,951	71,128,226
County Administration	216,828,813	-	82,484,465	299,313,278
Health and Human Services	106,062,482	-	93,041,892	199,104,374
Flood Control	-	-	75,115,893	75,115,893
Tax Administration	33,829,482	-	1,018,839	34,848,321
Roads and Bridges	88,640,188	15,259,647	10,500	103,910,335
Capital outlay	49,963,469	89,585,090	165,620,724	305,169,283
Debt service:				
Principal retirement	38,385,000	-	45,228,921	83,613,921
Bond issuance costs	3,238,202	90,750	2,349,532	5,678,484
Interest and fiscal charges	46,078,651	51,004	60,791,076	106,920,731
Total expenditures	<u>1,449,335,898</u>	<u>104,986,491</u>	<u>612,072,088</u>	<u>2,166,394,477</u>
Deficiency of revenues under expenditures	<u>(127,825,854)</u>	<u>(41,992,171)</u>	<u>(161,069,545)</u>	<u>(330,887,570)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	142,773,479	4,000,000	270,241,501	417,014,980
Transfers out	(41,118,336)	(2,434,142)	(254,666,568)	(298,219,046)
Refunding bonds issued	278,755,000	-	266,225,000	544,980,000
Premium on debt issued	34,024,217	-	30,093,091	64,117,308
Commercial paper issued	-	41,400,000	169,715,000	211,115,000
Payment to bond escrow agent	(310,487,211)	-	(94,428,115)	(404,915,326)
Payment to defease commercial paper	-	-	(200,000,000)	(200,000,000)
Proceeds from insurance recoveries	-	-	32,500,000	32,500,000
Proceeds from software license	-	-	2,210,655	2,210,655
Proceeds from loan	-	-	3,409,021	3,409,021
Proceeds from sale of capital assets	1,455	41,400	1,021,362	1,064,217
Total other financing sources (uses)	<u>103,948,604</u>	<u>43,007,258</u>	<u>226,320,947</u>	<u>373,276,809</u>
Net changes in fund balances	(23,877,250)	1,015,087	65,251,402	42,389,239
Fund balances, beginning	342,726,743	184,026,924	386,210,526	912,964,193
Fund balances, ending	<u>\$ 318,849,493</u>	<u>\$ 185,042,011</u>	<u>\$ 451,461,928</u>	<u>\$ 955,353,432</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended February 28, 2011

Net change in fund balances - total governmental funds \$ 42,389,239

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 depreciation of \$371,862,925 exceeded capital expenditures of \$305,169,283 in the current period. (66,693,642)

Capital asset donations 131,069,397

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

Debt issued:			
Bonds		\$(544,980,000)	
Bond premiums		(64,117,308)	
Commercial paper		(211,115,000)	
Loans		(5,619,676)	
Repayments:			
To paying agent for bond principal		83,613,921	
To refunding bond escrow agent		404,915,326	
Defeasance of commercial paper		200,000,000	
Loans		9,642,857	
Capital lease principal		1,864,006	
Refunding interest expense		<u>(19,520,255)</u>	
Net adjustment			(145,316,129)

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 10 balances.

Compensated absences	3,265,231	
Judgments payable	(200,000)	
OPEB obligation	(52,118,568)	
Pollution remediation obligation	(184,122)	
Amortization of debt premium	13,953,278	
Accretion of capital appreciation bond interest	(8,549,870)	
Amortization of advanced refunding difference	(9,523,172)	
Accrued interest on debt	(4,055,592)	
Amortization of deferred charges	(1,473,898)	
Capitalization of deferred charges	<u>4,605,421</u>	
Combined adjustment		(54,281,292)

Internal service funds are used by the County. The net revenue of the internal service funds are reported with governmental activities. 9,920,758

Because some revenues will not be collected for several months after the County's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount in the current period. (5,929,106)

The net effect of disposal of capital assets is to decrease net assets. (10,955,938)

Change in net assets of governmental activities \$ (99,796,713)

HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
February 28, 2011

	Enterprise Funds			Internal Service Funds
	Toll Road Authority	Nonmajor Enterprise Funds	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 7,959,169	\$ 7,959,169	\$ 49,253,402
Investments	-	430,592	430,592	80,143,055
Receivables, net	-	56,296	56,296	2,593,942
Accrued interest receivable	-	1,333	1,333	215,665
Other receivable, net	-	403,756	403,756	2,675,207
Inventories	-	301,456	301,456	1,237,731
Prepays and other assets	-	-	-	1,333,272
Due from other funds	-	-	-	285,584
Restricted assets:				
Cash and cash equivalents	45,207,717	-	45,207,717	-
Investments	1,162,298,068	-	1,162,298,068	-
Receivables, net	1,007,900	-	1,007,900	-
Accrued interest receivable	3,569,785	-	3,569,785	-
Other receivables, net	3,948,617	-	3,948,617	-
Due from other funds	1,364,164	-	1,364,164	-
Inventories	6,992,554	-	6,992,554	-
Prepays and other assets	1,489,747	-	1,489,747	-
Total current assets	<u>1,225,878,552</u>	<u>9,152,602</u>	<u>1,235,031,154</u>	<u>137,737,858</u>
Noncurrent assets:				
Investments, held as collateral by others	15,000,000	-	15,000,000	-
Advances to other funds	51,161,193	-	51,161,193	-
Notes receivable	714,312	-	714,312	-
Deferred charges, net of amortization	23,521,855	-	23,521,855	-
Deferred outflows	42,580,963	-	42,580,963	-
Capital assets:				
Land and construction in progress	554,008,344	3,963,598	557,971,942	259,000
License agreement, net of amortization	235,361,701	-	235,361,701	-
Other capital assets, net of depreciation	1,281,390,935	15,402,370	1,296,793,305	16,556,591
Total noncurrent assets	<u>2,203,739,303</u>	<u>19,365,968</u>	<u>2,223,105,271</u>	<u>16,815,591</u>
Total assets	<u>3,429,617,855</u>	<u>28,518,570</u>	<u>3,458,136,425</u>	<u>154,553,449</u>
LIABILITIES				
Current liabilities:				
Vouchers payable	-	578,312	578,312	11,908,575
Accrued payroll and compensated absences	-	5,631	5,631	1,112,462
Estimated outstanding claims	-	-	-	13,335,947
Incurred but not reported claims	-	-	-	32,319,141
Customer deposits	-	193,029	193,029	-
Due to other funds	-	-	-	35,536
Deferred revenue	-	-	-	669,909
Current portion of long-term liabilities	-	62,000	62,000	-
Payable from restricted assets:				
Vouchers payable	22,477,945	-	22,477,945	-
Accrued payroll and compensated absences	4,410,513	-	4,410,513	-
Retainage payable	12,450,639	-	12,450,639	-
Customer deposits	1,365,830	-	1,365,830	-
Due to other funds	547,143	-	547,143	-
Due to other units	1,082,284	-	1,082,284	-
Deferred revenue	34,959,734	-	34,959,734	-
Current portion of long-term liabilities	98,282,814	-	98,282,814	-
Total current liabilities	<u>175,576,902</u>	<u>838,972</u>	<u>176,415,874</u>	<u>59,381,570</u>
Noncurrent liabilities:				
Noncurrent portion of long-term liabilities	-	124,920	124,920	120,788
Noncurrent portion of long-term liabilities payable from restricted assets	2,662,722,804	-	2,662,722,804	-
Total noncurrent liabilities	<u>2,662,722,804</u>	<u>124,920</u>	<u>2,662,847,724</u>	<u>120,788</u>
Total liabilities	<u>2,838,299,706</u>	<u>963,892</u>	<u>2,839,263,598</u>	<u>59,502,358</u>
NET ASSETS				
Invested in capital assets, net of related debt	(231,001,927)	19,365,968	(211,635,959)	16,815,591
Restricted for:				
Capital projects	56,244,927	-	56,244,927	-
Debt service	245,933,048	-	245,933,048	-
Toll Road	520,142,101	-	520,142,101	-
Unrestricted	-	8,188,710	8,188,710	78,235,500
Total net assets	<u>\$ 591,318,149</u>	<u>\$ 27,554,678</u>	<u>\$ 618,872,827</u>	<u>\$ 95,051,091</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

For The Year Ended February 28, 2011

	Enterprise Funds			Internal Service Funds
	Toll Road Authority	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES				
Toll revenues	\$ 481,346,283	\$ -	\$ 481,346,283	\$ -
Lease revenue	-	-	-	60,489
Intergovernmental	851,964	-	851,964	1,722,483
Charges to departments	-	-	-	227,767,187
Sales	-	7,115,012	7,115,012	-
User fees	-	570,472	570,472	8,957,782
Miscellaneous	-	65,462	65,462	-
Total operating revenues	<u>482,198,247</u>	<u>7,750,946</u>	<u>489,949,193</u>	<u>238,507,941</u>
OPERATING EXPENSES				
Salaries	51,442,644	657,556	52,100,200	9,444,312
Materials and supplies	9,959,147	1,142,864	11,102,011	666,436
Services and fees	79,340,641	2,060,905	81,401,546	7,574,289
Utilities	3,200,664	304,697	3,505,361	835,042
Transportation and travel	1,110,594	-	1,110,594	6,717,884
Incurred claims	-	-	-	198,306,659
Estimated claims	-	-	-	(1,335,791)
Cost of goods sold	-	3,529,835	3,529,835	6,627,534
Depreciation	72,934,209	715,905	73,650,114	5,550,056
Total operating expenses	<u>217,987,899</u>	<u>8,411,762</u>	<u>226,399,661</u>	<u>234,386,421</u>
Operating income (loss)	<u>264,210,348</u>	<u>(660,816)</u>	<u>263,549,532</u>	<u>4,121,520</u>
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	13,528,156	13,597	13,541,753	825,658
Lease income	134,086	-	134,086	-
Interest expense	(125,570,077)	-	(125,570,077)	-
Gain (loss) on disposal of capital assets	(2,567,997)	-	(2,567,997)	57,819
Amortization expense	(17,140,081)	-	(17,140,081)	-
Other nonoperating revenue	818,557	-	818,557	3,364
Total nonoperating revenues (expenses)	<u>(130,797,356)</u>	<u>13,597</u>	<u>(130,783,759)</u>	<u>886,841</u>
Income before contributions and transfers	<u>133,412,992</u>	<u>(647,219)</u>	<u>132,765,773</u>	<u>5,008,361</u>
Contributions	3,063,258	-	3,063,258	-
Transfers in	1,071,318	-	1,071,318	6,912,397
Transfers out	(124,352,918)	(375,000)	(124,727,918)	(2,000,000)
Total contributions and transfers	<u>(120,218,342)</u>	<u>(375,000)</u>	<u>(120,593,342)</u>	<u>4,912,397</u>
Change in net assets	13,194,650	(1,022,219)	12,172,431	9,920,758
Net assets, beginning	578,123,499	28,576,897	606,700,396	85,130,333
Net assets, ending	<u>\$ 591,318,149</u>	<u>\$ 27,554,678</u>	<u>\$ 618,872,827</u>	<u>\$ 95,051,091</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For The Year Ended February 28, 2011

	Enterprise Funds			Internal Service Funds
	Toll Road Authority	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 485,931,798	\$ 9,451,548	\$ 495,383,346	\$ 239,232,855
Payment to employees	(48,689,021)	(657,322)	(49,346,343)	(9,390,776)
Payment to vendors	(101,698,889)	(7,196,225)	(108,895,114)	(20,112,708)
Claims paid	-	-	-	(198,050,491)
Receipts from miscellaneous reimbursements	818,557	-	818,557	-
Other receipts	-	-	-	3,364
Net cash provided by operating activities	<u>336,362,445</u>	<u>1,598,001</u>	<u>337,960,446</u>	<u>11,682,244</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Internal activity - net receipts from other funds	1,756,568	-	1,756,568	-
Transfers from other funds	1,071,318	-	1,071,318	6,912,397
Transfers to other funds	(124,352,918)	(375,000)	(124,727,918)	(2,000,000)
Net cash provided by (used for) noncapital financing activities	<u>(121,525,032)</u>	<u>(375,000)</u>	<u>(121,900,032)</u>	<u>4,912,397</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Receipts from lease of capital assets	134,086	-	134,086	-
Purchases of capital assets	(173,598,930)	(1,353,402)	(174,952,332)	(6,235,283)
Proceeds from sale of capital assets	406,904	-	406,904	-
Principal paid on capital lease	-	-	-	(55,968)
Principal and escrow paid on capital debt	(363,980,000)	-	(363,980,000)	-
Interest paid on capital debt	(133,162,549)	-	(133,162,549)	-
Proceeds from capital debt	283,852,674	-	283,852,674	-
Bond issuance cost	(1,107,236)	-	(1,107,236)	-
Net cash used for capital and related financing activities	<u>(387,455,051)</u>	<u>(1,353,402)</u>	<u>(388,808,453)</u>	<u>(6,291,251)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of monies advanced to other funds	12,399,407	-	12,399,407	-
Purchase of investments	(1,780,372,053)	-	(1,780,372,053)	(63,174,603)
Proceeds from sales and maturities of investments	1,790,101,475	5,988,507	1,796,089,982	57,599,508
Interest paid	-	(223,728)	(223,728)	(16,589,622)
Interest received	26,713,341	70,833	26,784,174	814,273
Net cash provided by (used for) investing activities	<u>48,842,170</u>	<u>5,835,612</u>	<u>54,677,782</u>	<u>(21,350,444)</u>
Net change in cash and cash equivalents	(123,775,468)	5,705,211	(118,070,257)	(11,047,054)
Cash and cash equivalents, beginning	168,983,185	2,253,958	171,237,143	60,300,456
Cash and cash equivalents, ending	<u>\$ 45,207,717</u>	<u>\$ 7,959,169</u>	<u>\$ 53,166,886</u>	<u>\$ 49,253,402</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating income (loss)	\$ 264,210,348	\$ (660,816)	\$ 263,549,532	\$ 4,121,520
Adjustment to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	72,934,209	715,905	73,650,114	5,550,056
Other nonoperating revenues	818,557	-	818,557	3,364
Changes in current assets and liabilities:				
Receivables, net	(508,051)	1,721,705	1,213,654	717,787
Notes and leases receivable	459,871	-	459,871	-
Prepays and other assets	5,931,773	64,381	5,996,154	(161,522)
Inventories	(675,687)	(76,454)	(752,141)	722,747
Vouchers payable and accrued liabilities	(14,490,406)	(145,851)	(14,636,257)	700,120
Due to other governmental units	(41,436)	-	(41,436)	-
Other liabilities	(73,455)	(21,103)	(94,558)	-
Deferred revenue	3,781,731	-	3,781,731	2,682
Retainage payable	4,126,680	-	4,126,680	-
Compensatory time payable	(111,689)	234	(111,455)	25,490
Net cash provided by operating activities	<u>\$ 336,362,445</u>	<u>\$ 1,598,001</u>	<u>\$ 337,960,446</u>	<u>\$ 11,682,244</u>
Non-Cash Operating, Capital and Related Financing, And Investing Activities:				
Capital contributions received from other governments	\$ 3,063,258	\$ -	\$ 3,063,258	\$ -
Increase (decrease) in the fair value of investments	(12,682,540)	169,055	(12,513,485)	16,743,051

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
February 28, 2011

	AGENCY FUNDS
ASSETS	
Cash and cash equivalents	\$ 208,846,961
Investments	114,398,148
Accounts receivable	673,273
Other receivables	6,004,869
Accrued interest receivable	388,465
Total assets	\$ 330,311,716
 LIABILITIES	
Vouchers payable	\$ 2,956,614
Accrued payroll and compensated absences	10,312,629
Incurred but not reported claims	5,033,503
Held for others	312,008,970
Total liabilities	\$ 330,311,716

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS - COMPONENT UNITS
FEBRUARY 28, 2011

	Mental Health Mental Retardation Authority of Harris County	Harris County Hospital District	Nonmajor Component Units	Total
ASSETS				
Cash and cash equivalents	\$ 8,866,816	\$ 76,624,000	\$ 2,974,914	\$ 88,465,730
Investments, including accrued interest	33,069,514	138,117,000	2,923,611	174,110,125
Receivables:				
Taxes, net	-	34,494,000	-	34,494,000
Accounts, net	8,557,940	74,906,000	586,128	84,050,068
Other	6,692,518	-	1,431	6,693,949
Inventories	182,569	7,330,000	-	7,512,569
Prepays and other assets	499,557	56,214,000	1,548,866	58,262,423
Restricted cash and investments	159,101	770,084,000	11,904,665	782,147,766
Capital assets:				
Land, improvements, and construction in progress	3,421,489	64,153,000	2,090,465	69,664,954
Intangible assets, net of accumulated amortization	1,365,734	-	-	1,365,734
Other capital assets, net of depreciation	18,605,142	254,083,000	7,201,916	279,890,058
Total assets	<u>81,420,380</u>	<u>1,476,005,000</u>	<u>29,231,996</u>	<u>1,586,657,376</u>
LIABILITIES				
Vouchers payable and accrued liabilities	12,473,291	138,364,000	365,555	151,202,846
Other liabilities	-	51,469,000	-	51,469,000
Deferred revenue	164,756	-	105,000	269,756
Accrued interest payable	-	634,000	-	634,000
Noncurrent liabilities:				
Due within one year	1,018,706	5,916,000	-	6,934,706
Due in more than one year	11,710,234	411,654,000	-	423,364,234
Total liabilities	<u>25,366,987</u>	<u>608,037,000</u>	<u>470,555</u>	<u>633,874,542</u>
NET ASSETS				
Invested in capital assets, net of related debt	13,800,749	103,330,000	-	117,130,749
Restricted for:				
Capital projects	113,663	51,039,000	-	51,152,663
Donor restrictions	-	-	1,426,140	1,426,140
Unrestricted net assets	42,138,981	713,599,000	27,335,301	783,073,282
Total net assets	<u>\$ 56,053,393</u>	<u>\$ 867,968,000</u>	<u>\$ 28,761,441</u>	<u>\$ 952,782,834</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
COMPONENT UNITS
For The Year Ended February 28, 2011

	Mental Health Mental Retardation Authority of Harris County	Harris County Hospital District	Nonmajor Component Units	Total
REVENUES				
Program Revenues:				
Charges for services	\$ 36,763,945	\$ 277,274,000	\$ 2,430,836	\$ 316,468,781
Operating grants and contributions	116,570,063	184,849,000	1,298,140	302,717,203
Capital grants, contributions and other	-	506,556,000	101,399	506,657,399
Total program revenues	<u>153,334,008</u>	<u>968,679,000</u>	<u>3,830,375</u>	<u>1,125,843,383</u>
EXPENSES	<u>169,837,222</u>	<u>1,497,363,000</u>	<u>4,793,981</u>	<u>1,671,994,203</u>
Net (expenses) program revenues	<u>(16,503,214)</u>	<u>(528,684,000)</u>	<u>(963,606)</u>	<u>(546,150,820)</u>
General Revenues:				
Ad valorem tax revenues	-	504,496,000	-	504,496,000
Earnings on investments	177,634	6,946,000	174,815	7,298,449
Other	19,725,440	11,116,000	(84,151)	30,757,289
Gain on sale of capital assets	23,642	-	1,459,077	1,482,719
Net general revenues	<u>19,926,716</u>	<u>522,558,000</u>	<u>1,549,741</u>	<u>544,034,457</u>
Change in net assets	3,423,502	(6,126,000)	586,135	(2,116,363)
Net assets, beginning (see note 1. A. on page 45)	<u>52,629,891</u>	<u>874,094,000</u>	<u>28,175,306</u>	<u>954,899,197</u>
Net assets, ending	<u>\$ 56,053,393</u>	<u>\$ 867,968,000</u>	<u>\$ 28,761,441</u>	<u>\$ 952,782,834</u>

See notes to the financial statements.

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The County is a public corporation and a political subdivision of the State of Texas. The County is governed by Commissioners Court, composed of four County Commissioners and the County Judge, all of whom are elected officials.

The County provides a vast array of services which include public safety, administration of justice, health and human services, culture and recreation services, public improvements, flood control and general administration.

As required by GAAP, the financial statements of the reporting entity include those of the County (the primary government) and its component units in conformity with GASB Statement No. 14, *The Financial Reporting Entity* ("GASB 14") and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* ("GASB 39").

In accordance with these standards, a financial reporting entity consists of the primary government and its component units. Component units are legally separate organizations for which the elected officials of the County are financially accountable, or the relationship to the County is such that exclusion would cause the County's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the County's operations, and so data from these units are combined with data of the County. Each discretely presented component unit, on the other hand, is reported in a separate column under the component unit total column on the combined statements to emphasize that it is legally separate from the government.

The criteria used to determine whether an organization is a component unit of the County and whether it is a discretely presented or a blended component unit includes: financial accountability of Harris County for the component unit, appointment of a voting majority, ability to impose the County's will on the component unit, fiscal dependency criterion, whether there is a financial benefit to or burden to the County, and whether services are provided entirely or almost entirely to the primary government.

Blended Component Units. For financial reporting purposes, the Harris County Flood Control District, the Harris County Juvenile Board, and the Harris County Sports & Convention Corporation are included in the operations and activities of the County as blended component units.

Harris County Flood Control District ("Flood Control District"). The Flood Control District provides programs and policies to protect homes and businesses from the hazards of flooding and facilitate economic development. The County prepares and approves the budget, sets the tax rate,

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2011

and approves all bond issuances of the Flood Control District. The criteria used to include the Flood Control District as a blended component unit of the County include: the County appoints a voting majority of the Flood Control District's governing body, the County is able to impose its will on the Flood Control District, and the County's and the Flood Control District's governing bodies are substantially the same.

Harris County Juvenile Board ("Juvenile Board"). The Juvenile Board monitors all of the Juvenile Probation department's programs, institutional services, and residential placement facilities. It also sets administrative policies and approves the department's annual budget prior to submission to Commissioners Court. The County has ministerial approval rights over the Juvenile Board budget. The criteria used to include the Juvenile Board as a blended component unit of the County include: fiscal dependency and that the Juvenile Board provides services entirely to the County.

Harris County Sports & Convention Corporation ("Sports & Convention Corporation"). The Sports and Convention Corporation was formed to act on behalf of the County by negotiating and managing a contract with an outside vendor for the operations and management of the Reliant Park Complex. The Sports & Convention Corporation is included as a blended component unit of the County because it almost exclusively benefits Harris County. The Sports & Convention Corporation was created by the County under the authority of state law. The County appoints a voting majority of the Sports & Convention Corporation's governing body; the County is able to impose its will on the Sports & Convention Corporation through the approval of the Corporation's annual budget, provision of funding to the Corporation, and the rights to any surpluses of the Corporation.

Discretely Presented Component Units. The component unit column in the government-wide financial statements includes the financial data of the County's discrete component units. These units are reported in a separate column to emphasize that they are legally separate from the County.

Harris County Hospital District ("Hospital District"). The Hospital District provides medical, dental and hospital care for Harris County's indigent and needy. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing board of the Hospital District are appointed by Commissioners Court, Commissioners Court approves the Hospital District's tax rate and annual budget but does not provide any funding or hold title to any of the Hospital District's assets, and the Hospital District cannot issue bonded debt without Commissioners Court approval. Complete financial statements may be obtained from:

Chief Financial Officer
Harris County Hospital District
2525 Holly Hall, Suite 270
Houston, Texas 77054

Harris County Housing Finance Corporation ("Housing Finance Corporation"). The Housing Finance Corporation is exempt from federal income tax and is authorized to issue debt instruments for the purpose of purchasing single family home mortgages and providing financing for multifamily projects, both relating to low and moderate income residents. The criterion used

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2011

to determine the Housing Finance Corporation's inclusion as a discretely presented component unit is based on the Housing Finance Corporation's fiscal dependency on the County, as Commissioners Court must approve all bond issuances and members of the governing body are all appointed by Commissioners Court. The Housing Finance Corporation was created by Commissioners Court but is not a political subdivision of Harris County under state law. Services provided by the Housing Finance Corporation are to the citizenry and not to the County. Complete financial statements may be obtained from:

Harris County Housing Finance Corporation
1001 Fannin, Suite 2500
Houston, Texas 77002-6760

Mental Health and Mental Retardation Authority ("MHMRA") of Harris County. The MHMRA is a public agency providing services for residents of the County who do not require long-term institutional mental health care. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing Board of Directors are appointed by Commissioners Court and the County approves the MHMRA's budget, but does not hold title to any of the MHMRA's assets. MHMRA can issue bonded debt without approval from the County. Complete financial statements may be obtained from:

Chief Financial Officer
MHMRA
P.O. Box 25381
Houston, TX 77265

Harris County Industrial Development Corporation ("Industrial Development Corporation"). The Industrial Development Corporation provides financing through the issuance of municipal bonds for qualified manufacturing and certain other facilities located in the County. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing body are appointed by Commissioners Court and the Industrial Development Corporation has the authority to issue bonded debt, which must be approved by Commissioners Court, however, the County has no obligation to assume the bonded debt. In addition, the Industrial Development Corporation does not provide services to the County. Complete financial statements may be obtained from:

Board President – Robert L. Silvers
Fulbright & Jaworski, L.L.P.
1301 McKinney, Suite 5100
Houston, Texas 77010-3095

Children's Assessment Center Foundation, Inc. ("CACF"). The Foundation (a Texas nonprofit corporation) was created to raise and provide funding for the Children's Assessment Center ("CAC"). The CAC provides a safe haven to sexually abused children and their families. CAC

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2011

employs an extraordinarily effective, multidisciplinary team approach in the prevention, assessment, investigation, referral for prosecution and treatment of child sexual abuse. The criteria used to determine inclusion as a discretely presented component unit are: CACF provides a direct benefit to the County, has a history of supporting the County and the resources are significant to the County. Complete financial statements may be obtained from:

Chief Financial Officer - Betsey Runge
The Children's Assessment Center Foundation
2500 Bolsover
Houston, TX 77005

Harris County Health Facilities Development Corporation ("HFDC"). The HFDC provides financing for qualified health facilities. Eligible projects must improve the adequacy, cost and accessibility of health care in Houston, Texas. Under the current tax code, eligible borrowers are limited to non-profit corporations. HFDC financing costs are limited to land, buildings, and equipment. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing body are appointed by Commissioners Court and the County approves the HFDC's budget and any bonded debt issued by the HFDC. HFDC is not required to issue separate audited financial statements and therefore are not included in the component unit column of the County's financial statements, but information relating to conduit debt can be found in note 10.D. in the notes to the financial statements.

Harris County Cultural Education Facilities Finance Corporation ("CEFFC"). The CEFFC provides and finances cultural education facilities for the exhibition and promotion of and education about the performing, dramatic, visual and literary arts, natural history and science for the public purpose of promoting the health, education and welfare of the citizens of the County. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing body are appointed by Commissioners Court and the services of CEFFC are provided to the citizenry and not to the County. CEFFC is not required to issue separate audited financial statements and therefore are not included in the component unit column of the County's financial statements, but information relating to conduit debt can be found in note 10.D. in the notes to the financial statements.

Friends of Countypets. The Friends of Countypets is a public nonprofit corporation organized to aid and act on behalf of Harris County, Texas in providing funds for the operation, maintenance, and improvement of veterinary public health programs of Harris County Public Health and Environmental Services. The criteria used to determine inclusion as a discretely presented component unit are: members of the governing body are appointed by Commissioners Court, the County approves the Friends of Countypets budget and the services provided are to the County and not its citizenry. Friends of Countypets is a newly established organization and is still in the process of raising funds to operate, therefore there are no financial statements to report in the current year.

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2011

Condensed Financial Statements. Condensed financial statements of each discretely presented component unit discussed above are presented. The fiscal year-ends for the discretely presented component units are as follows:

- Harris County Hospital District: February 28, 2011
- Harris County Housing Finance Corporation: December 31, 2010
- Mental Health and Mental Retardation Authority of Harris County: August 31, 2010
- Harris County Industrial Development Corporation: August 31, 2010
- Children's Assessment Center Foundation, Inc.: February 28, 2011
- Friends of Countypets: February 28, 2011

Prior to fiscal year 2011, Harris County Housing Authority ("Housing Authority") was a discretely presented component unit. Due to changes in the Housing Authority's structure it was determined that they are no longer a component unit of Harris County. Therefore, the beginning net assets for component units has been adjusted by \$56,020,223.

B. RELATED ORGANIZATIONS AND JOINTLY GOVERNED ORGANIZATIONS

Related organizations and jointly governed organizations provide services within the County that are administered by separate boards or commissions, but the County is not financially accountable, and such organizations are therefore not component units of the County, even though Commissioners Court may appoint a voting majority of an organization's board. Consequently, financial information for the following entities is not included within the scope of these financial statements.

Related Organizations. Related organizations of the County include the Emergency Service Districts which were created to implement emergency services to specific areas.

Jointly Governed Organizations. The County is a participant in jointly governed organizations. Commissioners Court appoints two of seven board members of the Port of Houston Authority; four of thirty-seven board members of the Gulf Coast Community Services Association; three of nineteen board members of the Harris-Galveston Coastal Subsidence District; two of thirty-five board members of the Houston-Galveston Area Council; two of nine board members of the Metropolitan Transit Authority of Harris County; six of thirteen board members of the Harris County/Houston Sports Authority, and the chairman is appointed jointly by Harris County and the City of Houston; three of twelve board members of the Gulf Coast Freight Rail District, and the chairman is appointed jointly by Harris County and the City of Houston; one of twenty-one board members of the Texas High Speed Rail and Transportation Corporation; at least three of the ten to thirteen board members of the Houston Ship Channel Security District.

During fiscal year 2011, the County disbursed the following amounts to these organizations: \$161,180 to the Port of Houston Authority, \$2,863 to Harris-Galveston Coastal Subsidence District, \$15,165,873 to Houston-Galveston Area Council, \$509,894 to the Metropolitan Transit Authority of Harris County, \$240,590 to the Harris County/Houston Sports Authority, \$75,000 to Gulf Coast Freight Rail District, and \$50,000 to the Texas High Speed Rail and Transportation Corporation. The County also collected \$235,520 from the Port of Houston

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2011

Authority, \$651,492 from the Houston-Galveston Area Council, \$34,831,458 from the Metropolitan Transit Authority of Harris County and \$49,650 from the Harris County/Houston Sports Authority.

The County is also a participant in several jointly governed Tax Increment Reinvestment Zones, (TIRZs) with the City of Houston, City of La Porte, City of Webster, and the City of Baytown. The County's participation in each TIRZ is pursuant to an Interlocal Agreement between the County, the municipality, and the respective TIRZ board of directors. For each TIRZ in which the County participates, Commissioners Court appoints one board member, except for the City of Webster TIRZ, where it appoints two board members. There are six City of Houston TIRZs in which Harris County participates: four created by city action (Market Square, Gulfgate, Greenspoint, and East Downtown) and two created by petition (Midtown and South Post Oak). Each of the TIRZs that the County jointly governs has up to fifteen members of its board of directors. Depending upon the terms of the municipal creation ordinance for a specific TIRZ, a municipality appoints at least five members to a TIRZ board and any affected school district appoints one board member each. For petition TIRZs, state elected representatives in whose districts a TIRZ is created also appoint one board member each. The petition TIRZs are required by statute to set aside one-third of all increment paid into the TIRZ Fund to establish affordable housing within the area (not necessarily within the TIRZ itself), while the TIRZs created by city action have no such requirement.

During fiscal year 2011 (for the tax year ended 12/31/09), the County disbursed \$5,898,031 to the City of Houston TIRZs, \$97,513 to the City of Baytown TIRZ, \$257,543 to the City of La Porte TIRZ and \$77,249 to the City of Webster TIRZ. The County subsequently received \$675,638 in affordable housing set-aside funds, in accordance with the Interlocal Agreements with the City of Houston petition TIRZs.

C. IMPLEMENTATION OF NEW STANDARDS

In the current year the County implemented the following new standards:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* ("GASB 51"), establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. Implementation of GASB 51 is reflected in the financial statements and note disclosure (Note 6). The County did not retroactively restate assets with an indefinite useful life.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"), addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Implementation of GASB 53 is reflected in the financial statements and note disclosures (Notes 2 and 10).

GASB Statement 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* ("GASB 58"), establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2011

States Bankruptcy Code. Implementation of GASB 58 did not have an impact on the County's financial disclosures.

D. FINANCIAL STATEMENT PRESENTATION, MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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 primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Fines and forfeitures are recognized when they have been assessed and adjudicated and earned. 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 County'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 include those generated from administration of justice, parks, County administration, health and human services, flood control, tax administration, and roads and bridges. Taxes and other items not included among program revenues are reported instead as general revenues. Miscellaneous general revenues contain non program specific contributions including capital asset contributions.

Fiduciary funds are excluded from the government-wide presentation of the financial statements.

Fund 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 County 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

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

All proprietary funds, including the enterprise and internal service funds, and fiduciary funds, including agency funds, are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses when they are incurred. Claims incurred but not reported are included in payables and expenses. These funds are accounted for using an economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included in the funds' statement of net assets. The agency funds are custodial in nature and involve no measurement of results of operations.

The accounts of the County are organized and operated 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/expenses. Government resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

Funds are classified into three categories: Governmental, Proprietary, and Fiduciary. The major funds of the County are noted within each category.

GOVERNMENTAL FUNDS: Used to account for all or most of a government's general activity.

General Fund - used to account for the general operations of the County, limited-tax permanent improvement debt service of the County, public improvement contingencies, and the mobility program.

Roads Capital Projects Fund – used to account for construction and improvements of roads in the County.

PROPRIETARY FUNDS: Enterprise funds are used to account for operations that are financed in a manner similar to those in the private sector, where the determination of net income is appropriate for sound financial administration.

Toll Road Authority - used to account for the acquisition, operation, and maintenance of County toll roads. These facilities are financed primarily through user charges.

FIDUCIARY FUNDS: Used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The County reports eighteen agency funds as nonmajor fiduciary funds. Agency funds are used to account for assets

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held by the County as an agent on behalf of various third parties outside the primary government.

The County and its Component Units apply all GASB pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, to business-type activities and enterprise funds, under the provision of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing goods in connection with the proprietary fund's principal operations. The principal operating revenues of the Subscriber Access and Parking Facilities Enterprise Funds are user fees. Operating revenues of the Sheriff's Commissary Enterprise Fund are comprised of sales revenue from the sale of items to inmates. Toll Road Enterprise Fund operating revenues consist of fees assessed each time a vehicle passes through a toll station on the County's toll roads. Operating revenues in the Internal Service Funds consist primarily of charges to the various County departments, plus lease revenue reported in the Vehicle Maintenance and Radio Operations Funds. Operating expenses in the enterprise and internal service funds include the cost of sales and services, administrative expenses, incurred and estimated claims and reinsurance, utilities, travel and transportation, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources to the extent they are needed.

E. BUDGETS

Harris County adheres to the following procedures in its consideration and adoption of its annual operating budget:

- 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 prepares an estimate of available resources for the upcoming fiscal year.
- The County Budget Officer prepares the proposed annual operating budget to be presented to the Commissioners Court for their consideration. The budget represents the financial plan for the new fiscal year.
- Public hearings are held on the proposed budget.
- The Commissioners Court must adopt an annual operating budget by a majority vote of the Commissioners Court before April 1. The adopted budget must be balanced; that is, budgeted expenditures may not exceed available resources.
- Annual budgets are legally adopted for the General Fund, Special Revenue Funds, Debt

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Service Funds and Capital Project Funds.

- The department is the legal level of budgetary control for General Fund-Operating. Commissioners Court approval is necessary to transfer appropriations between departments. Transfers may not increase the total budget. Budgetary control for Special Revenue Funds, Debt Service Funds and Capital Project Funds is at the fund level.
- The Commissioners Court may approve expenditures as an amendment to the budget in an emergency situation that could not have been foreseen at the time the original budget was approved.
- The Commissioners Court may adopt a supplemental budget for the limited purpose of spending proceeds of the sale of bonds or other obligations to be issued against future revenues and public or private grant or aid money for its intended purpose.
- The County Auditor shall certify to the Commissioners Court the receipt of all public or private grant or aid money that is available for disbursement in a fiscal year, but not included in the budget for the fiscal year.
- For financial reporting purposes several funds created for budgetary purposes may be combined into a single column on the CAFR.
- Appropriations lapse at year-end for all funds except Harris County Juvenile Board, Special Revenue Grants, and Capital Project Funds.
- Budgets are prepared on a cash basis (budget basis) which differs from GAAP basis.

A reconciliation of General Fund revenues and expenditures on a cash basis (budgetary basis) compared to modified accrual basis (GAAP) is presented in the Notes to Required Supplementary Information.

F. RESTRICTED ASSETS

Certain assets of the County's General Fund are classified as restricted assets because their use is restricted for a specific purpose by contract or state statute. The County uses the General Fund to account for the debt service on bonds issued for permanent improvement purposes. The County also uses the General Fund to account for certain impressed bank accounts.

The Debt Service Funds' cash and investments are restricted for debt service on bonds issued for roads and flood control purposes.

All of the Toll Road Authority's current assets are classified as restricted assets because their use is completely restricted by bond indentures.

G. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents include amounts in demand deposits as well as short-term investments with a maturity date of 90 days or less from date of purchase. Investments are stated at fair value, which is based on quoted market prices with the difference between the purchase

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price and market price being recorded as earnings on investments.

H. INTERFUND TRANSACTIONS

During the course of normal operations, the County has many transactions between funds. The accompanying Fund Level financial statements reflect as transfers the resources provided and expenditures used to provide services, construct assets and meet debt service requirements. The effect of interfund activity has been eliminated in the Government-wide financial statements, except for transactions between governmental and business-type activities.

I. INVENTORY

Inventory is stated at the lower of cost or market value, using the first-in, first-out method for proprietary fund types and for governmental funds.

J. PREPAIDS AND OTHER ASSETS

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both the government-wide and fund level financial statements.

K. DEFERRED CHARGES AND PREMIUMS (DISCOUNTS) ON BONDS PAYABLE

Deferred charges consist of bond issuance costs of the bonds. Such costs are amortized on a straight-line basis over the term of the bonds. Premiums (discounts) on bonds payable are amortized using the effective interest method over the term of the bonds.

L. DEFERRED OUTFLOWS – INTEREST RATE SWAPS

Consists of the changes in fair value of the hedging derivative instruments that are applicable to future reporting periods.

M. CAPITAL ASSETS AND INFRASTRUCTURE

Capital assets include land (including easements and right of ways), intangible assets, construction in progress, land improvements, buildings and building improvements, park improvements and facilities, equipment (including machinery, vehicles, animals, other tangible assets, exhaustible works of art and historical treasures and computer software), and infrastructure that are used in the County'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 County include roads, bridges, flood control facilities, lighting, storm sewers, and tunnels.

Capital assets of the County 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 other than easements, works of art and historical treasures, regardless of the historical cost. Easements greater than \$100,000 are capitalized. Purchased software greater than \$100,000 is capitalized and internally developed software greater than \$1,000,000 is capitalized. The threshold for capitalizing land improvements, buildings and building improvements, and park improvements is \$100,000. The capitalization threshold for infrastructure ranges from \$25,000 to \$250,000, depending on the type of infrastructure asset.

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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 capital assets reported in the governmental activities of the government-wide financial statements. The Toll Road Enterprise Fund capitalizes, as a cost of its constructed property, the interest expense and certain other costs of bonds issued for construction purposes less the interest earned on the proceeds of those bonds from the date of the borrowing until the date the property is ready for use. During fiscal year 2011, \$4,325,983 of interest expense was capitalized.

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>	<u>Asset</u>	<u>Years</u>
Land improvements	20	Computer software	5
Buildings	45	Infrastructure:	
Park improvements	30	Bridges	40
Equipment	3-20	Flood control channels	25-75
Machinery	15	Roads	20-50
Vehicles	4-15	Lighting	20
Animals	7	Storm sewers	30-75
Other tangible assets	5	Tunnels	40
Exhaustible works of art and historical treasures	10	Intangible - software licenses	contract term

N. NET ASSETS AND FUND BALANCES

NET ASSETS CLASSIFICATIONS

Net assets in the proprietary fund financial statements and 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.

RESERVATIONS, DESIGNATIONS, AND RESTRICTIONS

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

In the proprietary fund financial statements and in the government-wide financial statements, restricted net assets are reported for amounts that are externally restricted by 1) creditors (e.g. bond covenants), grantors, contributors, or laws and regulations of other governments or 2) law through constitutional provision or enabling legislation.

O. COMPENSATED ABSENCES

Accumulated compensatory time, vacation, and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures in the respective governmental funds. Accumulated compensated absences not expected to be liquidated with

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expendable available resources are reported as expenses and long-term liabilities in the governmental activities column of the government-wide financial statements. The majority of these have typically been liquidated from the General Fund in previous years. A liability for compensated absences is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Accumulated compensated absences of Proprietary Funds are recorded as an expense and liability in the respective fund and the business-type activities column of the government-wide financial statements as the benefit accrues for the employee.

Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 480 hours of sick leave. Unused sick leave benefits are not paid at termination. Employees accrue from three to ten hours of vacation per pay period depending on years of service and pay period type, standard versus extra. Employees may accumulate from 120 to 280 hours of vacation benefits, depending on years of service. Upon termination, employees are paid the balance of unused vacation benefits.

Non-exempt employees earn compensatory time at one and one-half times their full pay times the excess of 40 hours per week worked. The compensatory time balance for non-exempt employees may not exceed 240 hours. Hours in excess of the 240 hour maximum must be paid to the non-exempt employee at one and a half times the regular rate. Upon termination, non-exempt employees will be paid for compensatory time at their wage rate at time of termination. Exempt employees earn compensatory time at their regular rate of pay for hours worked in excess of 40 hours a week. Exempt employees can accumulate up to 240 hours of compensatory time. Upon termination, exempt employees are paid one-half of the compensatory time earned at the wage rate at time of termination. Compensatory time is carried forward indefinitely.

P. STATEMENT OF CASH FLOWS

For purposes of cash flows, the County considers cash equivalents to include all highly liquid investments (including restricted) with a maturity of three months or less when purchased.

Q. DEFERRED REFUNDING LOSS

The difference between the reacquired price and net carrying amount of old debt incurred due to a bond refunding transaction is deferred and amortized in a manner that is systematic and rational over the remaining life of the old or new debt, whichever is shorter.

R. 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.

S. COMPONENT UNIT TAX REVENUES

The Hospital District is partially financed by property tax levies (recorded as operating revenues), and partially financed by user charges, the usual revenue source for a proprietary fund

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activity. However, because of the unique character of services provided by the Hospital District, proprietary fund accounting is necessary to provide meaningful measurement of cost of services of the Hospital District.

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 Corporation (FDIC) is available for funds deposited at any financial institution with no maximum for all non-interest bearing demand deposits through December 31, 2012. 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 County 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, 2011, the carrying amount of the County's demand and time deposits was \$332,829,412 and the balance per various financial institutions was \$84,828,067. The County's deposits are not exposed to custodial credit risk since all deposits are either covered by FDIC insurance or an irrevocable standby letter of credit with the Federal Home Loan Bank of Dallas, 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 Harris County 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 Harris County Investment policy is reviewed and approved annually by Commissioners Court. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type, and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

AUTHORIZED INVESTMENTS

Funds of Harris County may be invested as authorized by the Public Funds Investment Act which is located in Chapter 256 of the Texas Government Code. Allowable investments include:

1. Obligations of the U.S. or its agencies and instrumentalities.
2. Direct obligations 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.

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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 U.S.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as investment quality by a nationally recognized investment rating firm not less than A 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 as authorized by the Public Funds Investment Act.
8. Commercial paper with a stated maturity of 270 days or fewer from the date of issuance as authorized by the Public Funds Investment Act.
9. No-load money market mutual funds regulated by the SEC, with a dollar-weighted average stated maturity of 90 days or fewer and which include in their investment objectives the maintenance of a stable net asset value of \$1 per share as authorized by the Public Funds Investment Act.
10. Guaranteed Investment Contracts as authorized by the Public Funds Investment Act.
11. Public Funds Investment Pools as authorized by the Investment Act.

Summary of Cash and Investments

Harris County's cash and investments are stated at fair value. The following is a summary of the County's cash and investments at February 28, 2011:

	Governmental Funds	Proprietary Funds	Total	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 364,228,277	\$ 57,212,571	\$ 421,440,848	\$ 208,846,961	\$ 630,287,809
Restricted Cash and Cash Equivalents	151,726,538	45,207,717	196,934,255	-	196,934,255
Investments	511,086,929	80,573,647	591,660,576	114,398,148	706,058,724
Restricted Investments	40,758,211	1,177,298,068	1,218,056,279	-	1,218,056,279
Total Cash & Investments	\$ 1,067,799,955	\$ 1,360,292,003	\$ 2,428,091,958	\$ 323,245,109	\$ 2,751,337,067

Harris County follows the practice of pooling investments for many of the funds identified on the financial statements. Most of the general fund is pooled with other County funds for investment purposes. Interest income earned on pooled cash and investments is allocated each accounting period to the various funds based on the ending cash balances. For financial statement purposes, the principal value of pooled investments is allocated between the participating funds.

The table below indicates the fair value and maturity value of the County's investments as of February 28, 2011, summarized by security type. Also demonstrated are the percentage of total portfolio and the weighted average maturity in days for each summarized security type.

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Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
<i>US Agency Notes</i>					
FAMCA	\$ 10,194,300	0.42%	\$ 10,000,000	0.0016	AAA/Aaa
FFCB	24,859,375	1.03%	25,000,000	0.0260	AAA/Aaa
FHLB	149,241,875	6.17%	151,150,000	0.2392	AAA/Aaa
FHLMC	423,949,963	17.53%	426,507,000	0.5465	AAA/Aaa
FNMA	607,110,063	25.09%	611,600,000	0.8184	AAA/Aaa
<i>Commercial Paper</i>					
GECC	34,998,043	1.45%	35,000,000	0.0007	A-1+/P-1
FCAR	146,688,490	6.07%	146,780,000	0.1217	A1+/P-1
FCAR	183,458,568	7.59%	183,602,000	0.2386	A-1+/P-1
FCAR	15,470,297	0.64%	15,480,000	0.0013	AAA/Aaa
TMCC	205,953,181	8.52%	206,000,000	0.0084	A-1+/P-1
<i>Local Governments</i>					
Allen, TX Economic Development	1,135,770	0.04%	1,125,000	0.0012	Aa3/AA3
Auburn Washington UT	1,948,067	0.08%	1,865,000	0.0083	AA
Burien Wash B	1,084,310	0.04%	1,160,000	0.0043	A1
College Station, TX	2,356,025	0.10%	2,395,000	0.0110	A+/Aa2
Connecticut State G/O	5,690,165	0.24%	5,675,000	0.0020	AA/Aa2
Dallas/Ft Worth, TX	2,043,340	0.08%	2,000,000	0.0002	A1/A+
Dallas, TX Refunding	1,949,400	0.08%	2,000,000	0.0019	Aa1/AA+
Dallas, TX WTR	3,607,184	0.15%	3,315,000	0.0061	Aa1/AAA
Denver, CO	3,172,760	0.13%	3,540,000	0.0140	Aa1/AAA
Ellis Cnty, TX G/O	2,723,877	0.11%	2,640,000	0.0087	AA/Aa2
Frisco, TX G/O	1,751,820	0.07%	1,630,000	0.0062	AA/Aa1
Gainesville, FL	420,810	0.02%	415,000	0.0001	AA+/Aa2
Galveston Cnty, TX	2,813,767	0.12%	2,775,000	0.0124	AA/Aa1
Grayson Cnty, TX	3,061,128	0.13%	3,040,000	0.0134	AA+/Aa2
Greensboro, ND	1,931,580	0.08%	2,000,000	0.0089	Aaa/AAA
Harris Cnty TX - Hospital District	7,246,707	0.30%	7,370,000	0.0285	A1/A
Hillsborough	13,344,608	0.55%	14,165,000	0.0510	Aa1/AA+
Houston, TX ISD	5,130,500	0.21%	5,000,000	0.0298	AAA/AAA
Houston, TX University	4,585,770	0.19%	4,500,000	0.0226	AA+/Aa2
Idaho Bond Ban	4,257,002	0.18%	4,240,000	0.0176	Aa1
Katy, TX ISD	2,063,050	0.09%	2,000,000	0.0087	Aaa/AAA
Mansfield, TX	4,248,280	0.18%	4,000,000	0.0212	Aaa/AAA
Maryland State	1,991,900	0.08%	2,000,000	0.0035	Aa1/AA+
Montgomery Cnty, TX	3,646,650	0.15%	3,500,000	0.0203	Aa2/AA
New York, NY	6,065,010	0.25%	6,000,000	0.0007	Aa2/AA
New York State D	23,748,271	0.98%	23,875,000	0.0221	AA/AAA
New York St University	30,285,600	1.25%	30,000,000	0.0285	Aae/AAA
North TX Municipal	2,613,909	0.11%	2,700,000	0.0044	Aa2/AAA
North TX TWY	3,730,265	0.15%	3,500,000	0.0127	Aa3/AA+
Northwest TX	2,114,040	0.09%	2,000,000	0.0109	Aaa/AAA
Ohio State Development	3,532,489	0.15%	3,455,000	0.0040	Aa2/AA
Oregon State ALT	2,632,243	0.11%	2,780,000	0.0139	Aa1/AA+

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Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
Pearland, TX	1,087,244	0.05%	1,075,000	0.0048	Aa2/AA+
Port Seattle	2,764,163	0.11%	2,750,000	0.0042	Aa1/AAA
Round Rock, TX	6,274,910	0.26%	6,255,000	0.0087	Aaa/AAA
Salt Lake County	1,459,567	0.06%	1,630,000	0.0066	AA+/AAA
San Antonio, TX	8,438,659	0.35%	8,545,000	0.0353	Aa1/AA
San Marcos, TX	1,547,055	0.06%	1,500,000	0.0068	Aaa/AAA
South Correction	512,470	0.02%	500,000	0.0004	Aa3/AA
Snohomish, CT	2,687,605	0.11%	2,760,000	0.0116	Aa2/AA
Texas City, TX	1,330,104	0.06%	1,285,000	0.0071	AA
Travis Cnty, TX	1,541,255	0.06%	1,505,000	0.0073	Aaa/AAA
Weatherford, TX	1,896,796	0.08%	1,825,000	0.0061	Aa3e
Williamson Cnty, TX	2,755,130	0.11%	2,665,000	0.0111	Aa1/AAA
<i>Money Market Mutual Funds</i>					
Fidelity Instl Treasury	402,562,548	16.65%	402,562,548	N/A	AAAm/Aaa
Fidelity Instl MMKT Tax Exempt	24,799,697	1.02%	24,799,697	N/A	AAAm/Aaa
Total Investments	2,418,507,655	100.00%	\$ 2,427,436,245		
<i>Demand and Time Deposits</i>					
	332,829,412				
Total Cash & Investments	\$ 2,751,337,067				

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 County manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by matching cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

According to the County investment policy, no more than 25% of the portfolio, excluding those investments held for future capital expenditures, the Health Insurance Fund, debt service payments, bond fund reserve accounts, capitalized interest funds, Toll Road Renewal and Replacement, Public Improvement Contingency, District Clerk Registry, County Clerk Registry, and Harris County and Metro Joint Deposit Escrow 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, 2011, the County 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 County mitigates these risks by emphasizing the importance of a diversified portfolio. All funds must be sufficiently diversified

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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 minimized.

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 A or its equivalent. Money market mutual funds and public funds investment pools must be rated Aaa by Moody's Investor Rating Service.

The Harris County Sports & Convention Corporation (the "Corporation"), a blended component unit of the County, maintains investments made during the fiscal year ended February 28, 2003 of \$12 million in the Sports Authority's Subordinate Lien Notes Series 2001 C-1 and Series 2001 C-2 which are not in compliance with Chapter 2256 of the Texas Government Code because the notes did not receive a rating from at least one nationally recognized investment rating firm.

Custodial Credit Risk: Investments are exposed to custodial credit risk if the investments are uninsured, are not registered in the County's name and are held by the counterparty. In the event of the failure of the counterparty, the County may not be able to recover the value of its investments that are held by the counterparty. As of February 28, 2011, all of the County's investments are held in the County's name.

Foreign Currency Risk: Foreign currency risk is the risk that fluctuations in the exchange rate will adversely affect the value of investments denominated in a currency other than the US dollar. The County Investment Policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the County 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 Harris County financial statements. The two investment strategies employed by Harris County 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 Group 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	360	\$ 365,500,000	237
Public Improvement Contingency	Barbell	1,800	174,365,000	1,500
General Fund Group	Matching	360	7,080,000	32
Special Revenue Funds	Matching	1,080	15,265,000	522
Debt Service Funds	Matching	1,080	161,422,000	80
Capital Project Funds	Matching	1,080	101,650,000	806
Proprietary Funds	Matching/Barbell	1,080	48,255,000	614
Toll Road Project Funds	Matching	1,080	726,057,000	923
Toll Road Renewal/Replacement	Matching	1,800	161,355,000	1,276
Toll Road Bond Reserve	Matching	Maturity of the bonds	99,085,000	5,439
County Clerk Registry	Matching/Barbell	2,520	48,030,000	1,384
District Clerk Registry	Matching/Barbell	2,520	53,280,000	1,597
Harris Co/Metro Joint Escrow	Matching/Barbell	5,400	38,730,000	4,719
Money Market Mutual Funds	N/A	N/A	427,362,245	N/A
			<u>\$ 2,427,436,245</u>	

Note: Money Market Mutual Funds are excluded from the various fund types which may affect the average remaining days to maturity.

3. PROPERTY TAXES

COUNTY

Property taxes for the County and the Flood Control District are levied on tax rates adopted within 60 days of receiving the certified roll or September 30, whichever is later. Tax rates are usually adopted in September or October. Taxes are levied on the assessed value of all taxable real and personal property as of the preceding January 1. On January 1, at the time of assessment, an enforceable lien is attached to the property for property taxes. All tax payments not received by February 1, after the taxes are levied, are considered delinquent. Accordingly, no current taxes receivable are reported. Appraised values are determined by the Harris County Appraisal District ("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 three years. Taxpayers and taxing units may challenge appraisals of the Appraisal District through various appeals and, if necessary, legal action.

The County is responsible for setting the tax rate for the County, the Flood Control District, the Hospital District, and the Port of Houston Authority for debt service only. The County adopted the 2010 tax rate, per \$100 of taxable value, for the County and Flood Control District as follows:

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	<u>Operations and Maintenance</u>	<u>Debt Service</u>	<u>Total</u>
Harris County			
Constitutional Funds	\$ 0.33401	\$ 0.03635	\$ 0.37036
Road Debt Service	-	0.01769	0.01769
	<u>\$ 0.33401</u>	<u>\$ 0.05404</u>	<u>\$ 0.38805</u>
Total - Harris County			
Flood Control District	<u>\$ 0.02727</u>	<u>\$ 0.00196</u>	<u>\$ 0.02923</u>

The County is permitted by law to levy tax rates for general fund, jury fund, road and bridge fund and permanent improvement fund purposes up to \$0.80 per \$100 of taxable valuation. The County levied a tax rate of \$0.38805 per \$100 of taxable valuation subject to the \$0.80 tax rate limitation, of which \$0.37036 per \$100 valuation was for Constitutional Funds, and a tax rate of \$0.01769 per \$100 valuation was for the Road Debt Service.

The Flood Control District is permitted by law to levy a tax rate up to \$0.30 per \$100 of taxable valuation. There is no limitation on the tax rate which may be set for debt service within the \$0.30 tax rate limit. The tax rate for operations and maintenance is limited to the rate as may from time to time be approved by the voters of the Flood Control District. The maximum tax rate for operations and maintenance is \$0.15 per \$100 of taxable valuation. A tax rate of \$0.02727 per \$100 valuation was set in 2010 for the Flood Control District's operations and maintenance. The County Tax Assessor bills and collects the taxes for the County, Flood Control District, Hospital District, Port of Houston Authority, City of Houston and various other jurisdictions within the County. Collections of the property taxes and subsequent remittances to the proper entities are accounted for in the Tax Assessor's Agency Fund. Tax collections deposited for the County and Flood Control District are distributed on a periodic basis to the respective General Funds and Debt Service Funds. These distributions are based upon the tax rate established for each fund by order of the Commissioners Court for the tax year for which the collections are made.

Property tax receivables of \$32,731,835 as of February 28, 2011 are reported net of an allowance for uncollectible taxes of \$139,902,196.

COMPONENT UNITS

The Hospital District receives property taxes levied by the County Commissioners Court for operations. Ad Valorem tax revenues are recorded at the time the taxes are assessed, net of provisions for uncollected amounts and collection expenses. Subsequent adjustments to the tax rolls, recorded by the County Tax Assessor, are included in the revenues in the period such adjustments are made by the County Tax Assessor.

Property tax receivables of \$34,494,000 as of February 28, 2011 are reported net of an allowance for uncollectible taxes of \$57,365,000 for the Hospital District.

4. OTHER RECEIVABLES

The County reports accounts receivables and other receivables in the various funds for amounts to be received from customers, granting agencies, and the Tax Assessor. A breakdown of these

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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receivables at February 28, 2011 is as follows:

RECEIVABLES AND OTHER RECEIVABLES

	Customers	Granting Agencies	Tax Assessor	Totals
General	\$ 38,141,703	\$ -	\$ 34,445,838	\$ 72,587,541
Roads Capital Projects	3,840,437	-	-	3,840,437
Nonmajor Governmental	15,733,876	73,371,127	9,110,361	98,215,364
Toll Road	4,956,517	-	-	4,956,517
Nonmajor Enterprise	460,052	-	-	460,052
Internal Service	5,269,149	-	-	5,269,149
Component Units	84,050,068	6,693,949	-	90,744,017
Totals	<u>\$ 152,451,802</u>	<u>\$ 80,065,076</u>	<u>\$ 43,556,199</u>	<u>\$ 276,073,077</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and proprietary funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenues in the governmental funds and proprietary funds were as follows:

	Earned but Unavailable	Unearned
Taxes receivable (General fund)	\$ 29,394,834	\$ -
Taxes receivable (nonmajor governmental funds)	3,337,001	-
Grant funding (nonmajor governmental funds)	-	36,617,388
Other receivables (General fund)	14,061,509	7,105,074
Other receivables (nonmajor governmental funds)	14,046,259	25,690,574
Other receivables (Toll Road fund)	-	34,959,734
Other receivables (internal service funds)	-	669,909
Total deferred revenue for governmental funds and proprietary funds	<u>\$ 60,839,603</u>	<u>\$ 105,042,679</u>

5. INTERFUND BALANCES AND TRANSFERS

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

The interfund receivable and payable balances, by individual major fund, other governmental funds (aggregated), other proprietary funds (aggregated), internal service funds (aggregated), and fiduciary funds as of February 28, 2011 are as follows:

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Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 29,732,469
	Toll Road	268,132
	Internal Service	35,536
Nonmajor Governmental	General	61,358
	Nonmajor Governmental	26,815,391
Toll Road	General	178,688
	Nonmajor Governmental	1,185,476
Internal Service	Nonmajor Governmental	6,573
	Toll Road	279,011
Total		<u>\$ 58,562,634</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 40,000
Nonmajor Governmental	Nonmajor Governmental	12,585,000 (3)
Toll Road	General	31,125,780 (1)
	Nonmajor Governmental	20,035,413 (2)
Total		<u>\$ 63,786,193</u>

(1) In September 2006, the Toll Road Fund advanced \$26 million to the County's General Fund to cover the County's repayment of a long term note on behalf of the Harris County Sports & Convention Corporation. The repayment of the note plus interest by the Harris County/Houston Sports Authority to the County and subsequently to the Toll Road Fund began in 2011 and will continue through 2020. (2) In October 2008, Commissioners Court approved an interfund borrowing and line of credit from the Toll Road fund to the Hurricane Ike Disaster fund, not to exceed \$60 million. The borrowing and line of credit had a one-year maturity with principal and interest due at maturity with an option for Commissioners Court to extend the note for an additional year. During the fiscal year, the note was extended for an additional year. The interfund borrowing was \$20 million at February 28, 2011. (3) The \$12 million relates to the investment discussed in Note 2.

The following is a summary of the County's transfers for the year ended February 28, 2011:

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	Transfers In:		Roads Capital	Nonmajor	Toll	Internal	Total
	General	Projects	Governmental	Road	Service		
Transfers Out:							
General	\$ -	\$ -	\$ 36,243,336	\$ -	\$ 4,875,000	\$ 41,118,336	
Road Capital Projects	1,863	-	2,432,279	-	-	2,434,142	
Nonmajor Governmental	22,043,698	-	231,565,886	1,056,972	12	254,666,568	
Toll Road	120,352,918	4,000,000	-	-	-	124,352,918	
Nonmajor Enterprise	375,000	-	-	-	-	375,000	
Internal Service	-	-	-	-	2,000,000	2,000,000	
Governmental Capital Assets	-	-	-	14,346	37,385	51,731	
Total	\$ 142,773,479	\$ 4,000,000	\$ 270,241,501	\$ 1,071,318	\$ 6,912,397	\$ 424,998,695	

Toll Road transferred \$120 million to the General fund for funding of a County thoroughfare and mobility program and an additional \$4 million for the County to manage a non-toll bridge project for the Toll Road. All other transfers are routine in nature, such as cash match of grants, debt service payments, and internal service costs.

6. CAPITAL ASSETS

COUNTY

Capital asset activity for the year ended February 28, 2011 was as follows:

	Balance		Additions	Deletions	Transfers	Balance	
	March 1, 2010	February 28, 2011					
Governmental Activities:							
Land	\$ 3,893,353,019	\$ 74,950,165	\$ (2,374,716)	\$ 6,103,459	\$ 3,972,031,927		
Construction in progress	426,290,166	237,688,093	(7,681,323)	(314,503,720)	341,793,216		
Intangible assets - water rights	-	2,400,000	-	-	2,400,000		
Total capital assets not depreciated	4,319,643,185	315,038,258	(10,056,039)	(308,400,261)	4,316,225,143		
Intangible assets - software & licenses	-	11,096,342	-	22,322,244	33,418,586		
Land improvements	11,010,787	500,000	-	(5,826,190)	5,684,597		
Infrastructure	10,061,280,217	90,679,968	(4,467,817)	176,558,423	10,324,050,791		
Park facilities	143,463,317	6,337,493	-	9,952,806	159,753,616		
Flood control projects	652,847,783	100	-	52,588,587	705,436,470		
Buildings	1,575,420,472	-	(6,096,494)	42,944,733	1,612,268,711		
Equipment	285,231,758	26,180,895	(9,446,762)	9,838,882	311,804,773		
	12,729,254,334	134,794,798	(20,011,073)	308,379,485	13,152,417,544		
Less accumulated depreciation for:							
Intangible assets - software & licenses	-	(4,185,670)	-	-	(4,185,670)		
Land improvements	(570,658)	(227,600)	-	-	(798,258)		
Infrastructure	(4,297,769,375)	(284,076,707)	1,600,120	-	(4,580,245,962)		
Park facilities	(29,458,300)	(3,417,557)	-	-	(32,875,857)		
Flood control projects	(240,602,086)	(21,594,967)	-	-	(262,197,053)		
Buildings	(409,511,890)	(33,667,215)	1,888,583	-	(441,290,522)		
Equipment	(183,344,623)	(30,243,265)	8,335,543	6,430	(205,245,915)		
	(5,161,256,932)	(377,412,981)	11,824,246	6,430	(5,526,839,237)		
Total capital assets being depreciated, net	7,567,997,402	(242,618,183)	(8,186,827)	308,385,915	7,625,578,307		
Governmental activities capital assets, net	\$ 11,887,640,587	\$ 72,420,075	\$ (18,242,866)	\$ (14,346)	\$ 11,941,803,450		

The \$14,346 balance in the transfers column is due to assets that were transferred between the governmental and business-type funds.

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	Balance March 1, 2010	Additions	Deletions	Transfers	Balance February 28, 2011
Business-type Activities:					
Land	\$ 301,382,032	\$ 7,971,684	\$ -	\$ 167,466	\$ 309,521,182
Construction in progress	414,656,336	167,179,066	(7,033,930)	(326,350,712)	248,450,760
Total capital assets not depreciated	<u>716,038,368</u>	<u>175,150,750</u>	<u>(7,033,930)</u>	<u>(326,183,246)</u>	<u>557,971,942</u>
License Agreement	237,500,000	-	-	640,451	238,140,451
Land improvements	4,246,045	100,711	-	10	4,346,766
Infrastructure	1,776,820,536	-	-	321,977,471	2,098,798,007
Other tangible assets	21,598,642	9,158	-	445,155	22,052,955
Buildings	38,005,617	246,051	(3,062,867)	1,781,744	36,970,545
Equipment	59,873,598	3,188,922	(1,454,665)	1,359,192	62,967,047
	<u>2,138,044,438</u>	<u>3,544,842</u>	<u>(4,517,532)</u>	<u>326,204,023</u>	<u>2,463,275,771</u>
Less accumulated depreciation/amortization for:					
License Agreement	(878,750)	(1,900,000)	-	-	(2,778,750)
Land improvements	(547,870)	(186,392)	-	-	(734,262)
Infrastructure	(813,963,238)	(60,369,047)	-	-	(874,332,285)
Other tangible assets	(15,178,883)	(5,546,549)	-	-	(20,725,432)
Buildings	(9,244,222)	(911,898)	476,447	-	(9,679,673)
Equipment	(19,517,512)	(4,736,228)	1,389,808	(6,431)	(22,870,363)
	<u>(859,330,475)</u>	<u>(73,650,114)</u>	<u>1,866,255</u>	<u>(6,431)</u>	<u>(931,120,765)</u>
Total capital assets being depreciated, net	<u>1,278,713,963</u>	<u>(70,105,272)</u>	<u>(2,651,277)</u>	<u>326,197,592</u>	<u>1,532,155,006</u>
Business-type activities capital assets, net	<u>\$ 1,994,752,331</u>	<u>\$ 105,045,478</u>	<u>\$ (9,685,207)</u>	<u>\$ 14,346</u>	<u>\$ 2,090,126,948</u>

Depreciation expense was charged to the programs of the primary government as follows:

Governmental activities:

Administration of Justice	\$ 25,356,158
Parks	21,022,019
County Administration	23,707,128
Health and Human Services	1,737,370
Flood Control	22,853,983
Tax Administration	239,213
Roads and Bridges	282,497,110
	<u>\$377,412,981</u>

Business-type activities:

Parking Facilities	\$ 470,006
Sheriff's Commissary	245,899
Toll Road	72,934,209
	<u>\$ 73,650,114</u>

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COMPONENT UNITS

<u>MHMRA (August 31, 2010)</u>	Fiscal Year Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Fiscal Year Ending Balance
Land	\$ 3,219,943	\$ 201,546	\$ -	\$ 3,421,489
Buildings & Improvements	24,314,984	806,186	-	25,121,170
Equipment, Furniture & Vehicles	7,982,222	318,495	(293,746)	8,006,971
Intangible Assets - Software	-	1,365,734	-	1,365,734
	<u>35,517,149</u>	<u>2,691,961</u>	<u>(293,746)</u>	<u>37,915,364</u>
Less accumulated depreciation for:				
Buildings & Improvements	(11,217,293)	(918,086)	-	(12,135,379)
Equipment, Furniture & Vehicles	(6,923,538)	(389,195)	285,683	(7,027,050)
	<u>(18,140,831)</u>	<u>(1,307,281)</u>	<u>285,683</u>	<u>(19,162,429)</u>
MHMRA capital assets, net	<u>\$ 17,376,318</u>	<u>\$ 1,384,680</u>	<u>\$ (8,063)</u>	<u>\$ 18,752,935</u>

<u>Hospital District (February 28, 2011)</u>	Fiscal Year Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Fiscal Year Ending Balance
Land & Improvements	\$ 33,917,000	\$ 2,910,000	\$ (196,000)	\$ 36,631,000
Construction in progress	49,720,000	(22,198,000)	-	27,522,000
Total capital assets not depreciated	<u>83,637,000</u>	<u>(19,288,000)</u>	<u>(196,000)</u>	<u>64,153,000</u>
Buildings and Improvements	322,559,000	70,165,000	(1,057,000)	391,667,000
Equipment	242,802,000	28,103,000	(10,443,000)	260,462,000
	<u>565,361,000</u>	<u>98,268,000</u>	<u>(11,500,000)</u>	<u>652,129,000</u>
Less accumulated depreciation	(366,089,000)	(42,382,000)	10,425,000	(398,046,000)
	<u>(366,089,000)</u>	<u>(42,382,000)</u>	<u>10,425,000</u>	<u>(398,046,000)</u>
Total capital assets being depreciated, net	<u>199,272,000</u>	<u>55,886,000</u>	<u>(1,075,000)</u>	<u>254,083,000</u>
Hospital District capital assets, net	<u>\$ 282,909,000</u>	<u>\$ 36,598,000</u>	<u>\$ (1,271,000)</u>	<u>\$ 318,236,000</u>

The Hospital District records land, buildings, improvements, and equipment at cost or fair market value at the time of donation and includes expenditures for new facilities and equipment and those which substantially increase the useful life of existing assets. Depreciation of facilities and equipment is provided using the straight-line method over the estimated useful lives of the assets.

MHMRA records all governmental capital assets at cost, except for donated fixed assets, which are recorded at their fair market value on the date donated. Depreciation is reported at the government-wide level using the straight-line method over the estimated useful lives of the assets. The schedule included here does not include the capital assets of MHMRA's discrete component units (a net value of \$4,639,430).

7. CAPITAL LEASES PAYABLE AND INSTALLMENT PURCHASES

The County has entered into several capital lease agreements for the purchase of buildings, one for Sports and Convention Corporation equipment, and one for County equipment; the amounts capitalized are \$32,314,676, \$1,279,012, and \$310,001, respectively. Payments for the buildings and equipment during the fiscal year ended February 28, 2011 totaled \$2,969,771 and \$336,988 respectively. Payments, including interest at an average rate of 6.3% per annum for buildings and no

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interest for the equipment leases, are due as follows as of February 28, 2011:

<u>Fiscal year</u>	<u>Governmental Activities</u>		<u>Business-Type</u>
	<u>Buildings</u>	<u>Equipment</u>	<u>Activities</u>
			<u>Equipment</u>
2012	\$ 2,969,767	\$ 584,532	\$ 62,000
2013	2,969,767	-	62,000
2014	2,969,767	-	62,001
2015	2,532,373	-	-
2016	2,386,579	-	-
2017-2021	10,422,413	-	-
2022-2026	754,000	-	-
Total future lease payments	25,004,666	584,532	186,001
Less: Interest	(6,141,095)	-	-
	<u>\$ 18,863,571</u>	<u>\$ 584,532</u>	<u>\$ 186,001</u>

8. OTHER LIABILITIES

The balances Due to Other Governmental Units, by Fund, as of February 28, 2011 are as follows:

<u>Receivable Entity</u>	<u>Payable Entity</u>	
Fort Bend Toll Authority	Toll Road	\$ 1,082,284
Total Due to Other Governmental Units		<u>\$ 1,082,284</u>

9. SHORT-TERM DEBT

Tax Anticipation Notes

The County issues tax anticipation notes to bridge the cash flow deficit created by a mismatch between an evenly distributed expenditure budget and unevenly distributed revenue collection. Bondholder security is provided by a lien on General Fund property taxes exclusive of those levied for debt service. Property tax receipts are largely received in January and February, while the County's General Fund expenditures are dominated by payroll and benefit costs which are expensed in roughly equal installments throughout the year.

Activity for the year ended February 28, 2011, was as follows:

	<u>Outstanding</u>			<u>Outstanding</u>
	<u>March 1,</u>	<u>Issued</u>	<u>Redeemed</u>	<u>February 28,</u>
	<u>2010</u>			<u>2011</u>
Governmental Activities				
Tax Anticipation Notes	\$ -	\$ 450,000,000	\$ (450,000,000)	\$ -

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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10. LONG-TERM LIABILITIES

The changes in the County's Governmental Long-Term Liabilities and Business-Type/Enterprise Fund Liabilities for fiscal year 2010-2011 were as follows:

	Outstanding March 1, 2010	Issued/ Increased	Redeemed/ Decreased	Outstanding February 28, 2011	Due Within Year
<u>Governmental Activities:</u>					
<u>General Obligation Debt</u>					
Road Bonds - Principal	\$ 718,780,000	\$ 84,340,000	\$ (119,300,000)	\$ 683,820,000	\$ 19,270,000
Permanent Improvement Bonds - Principal	888,916,629	278,755,000	(305,260,000)	862,411,629	31,850,000
Flood Control Bonds - Principal	518,582,945	181,885,000	(10,268,921)	690,199,024	10,109,024
Total Principal General Obligation Debt	2,126,279,574	544,980,000	(434,828,921)	2,236,430,653	61,229,024
Unamortized Premiums, Road Bonds	34,605,967	7,238,078	(3,828,476)	38,015,569	-
Unamortized Premiums, PIB Bonds	31,615,746	32,386,782	(6,676,277)	57,326,251	-
Unamortized Premiums, FC Bonds	27,549,456	19,722,759	(2,687,316)	44,584,899	-
Bond Refunding Gain (Loss), Road Bonds	(18,330,767)	11,388,613	1,546,692	(5,395,462)	-
Bond Refunding Loss, PIB Bonds	(12,999,686)	(39,061,650)	5,421,645	(46,639,691)	-
Bond Refunding Loss, FC Bonds	(13,073,472)	-	1,012,854	(12,060,618)	-
Accretion of Discount - Capital Appreciation Bonds:					
Road Series 1996	34,324,530	3,838,288	-	38,162,818	-
PIB Series 1996	18,835,558	2,106,257	-	20,941,815	-
GO Revenue Series 2002	31,947,651	5,205,623	-	37,153,274	-
Flood Control Series 1993	3,661,318	325,826	(2,926,124)	1,061,020	1,061,020
Total General Obligation Debt	2,264,415,875	588,130,576	(442,965,923)	2,409,580,528	62,290,044
<u>Tax and Subordinate Lien Revenue Bonds</u>					
Tax and Subordinate Lien Revenue					
Refunding, Series 2004A	3,100,000	-	(925,000)	2,175,000	965,000
Tax and Subordinate Lien Revenue					
Refunding, Series 2004B	176,800,000	-	-	176,800,000	-
Tax and Subordinate Lien Revenue					
Refunding, Series 2009C	28,315,000	-	-	28,315,000	-
Unamortized Premium, Tax & Sub Lien Rev	11,954,811	-	(761,209)	11,193,602	-
Bond Refunding Loss, Tax & Sub Lien Rev	(14,096,080)	-	1,541,981	(12,554,099)	-
Total Tax and Subordinate Lien Revenue Bonds	206,073,731	-	(144,228)	205,929,503	965,000
<u>Certificates of Obligation</u>					
Series 2001	1,940,000	-	(945,000)	995,000	995,000
Total Certificates of Obligation	1,940,000	-	(945,000)	995,000	995,000
Total Bonds Payable	2,472,429,606	588,130,576	(444,055,151)	2,616,505,031	64,250,044
Commercial Paper Payable	332,048,000	211,115,000	(200,000,000)	343,163,000	-
Compensatory Time Payable	38,888,981	18,505,990	(21,774,880)	35,620,091	22,084,456
Obligations Under Capital Leases	21,368,077	-	(1,919,974)	19,448,103	2,372,635
Judgments Payable	5,353,417	200,000	(653,417)	4,900,000	-
Loan Payable	9,642,857	5,619,676	(9,642,857)	5,619,676	3,407,472
OPEB Obligation	188,310,144	52,118,568	-	240,428,712	-
Pollution Remediation Obligation	2,680,610	1,027,539	(843,417)	2,864,732	547,607
Total Governmental Activities	<u>\$ 3,070,721,692</u>	<u>\$ 876,717,349</u>	<u>\$ (678,889,696)</u>	<u>\$ 3,268,549,345</u>	<u>\$ 92,662,214</u>

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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	Outstanding March 1, 2010	Issued/ Increased	Redeemed/ Decreased	Outstanding February 28, 2011	Due Within Year
Business-type Activities:					
Senior Lien Revenue Bonds	\$ 2,136,640,000	\$ 254,330,000	\$ (286,545,000)	\$ 2,104,425,000	\$ 37,645,000
Tax Bonds	624,030,000	25,410,000	(66,170,000)	583,270,000	45,380,000
Total Bond Principal	2,760,670,000	279,740,000	(352,715,000)	2,687,695,000	83,025,000
Unamortized Premium, Revenue Bonds	45,114,247	1,490,447	(5,577,819)	41,026,875	-
Unamortized Premium/(Discount), Tax Bonds	34,708,478	(640,034)	(6,896,560)	27,171,884	-
Accretion of Discount - Capital Appreciation Bonds:					
Unlimited Tax Series 1995A	19,873,789	4,653,043	(9,550,000)	14,976,832	8,452,238
Unlimited Tax Series 1997	5,718,666	1,108,669	(1,715,000)	5,112,335	1,521,730
Deferred Amount on Refunding	(89,607,163)	(17,717,689)	30,734,688	(76,590,164)	-
Accrued Interest Payable	7,100,423	124,653,682	(126,470,259)	5,283,846	5,283,846
Total Bonds Payable	2,783,578,440	393,288,118	(472,189,950)	2,704,676,608	98,282,814
Derivative instruments - interest rate swaps	-	42,580,963	-	42,580,963	-
Compensatory Time Payable	1,316,727	651,678	(737,367)	1,231,038	763,244
Obligations Under Capital Leases	-	310,001	(124,000)	186,001	62,000
OPEB Obligation	10,358,368	2,922,804	-	13,281,172	-
Total Business-type Activities	<u>\$ 2,795,253,535</u>	<u>\$ 439,753,564</u>	<u>\$ (473,051,317)</u>	<u>\$ 2,761,955,782</u>	<u>\$ 99,108,058</u>

A. BONDED DEBT

Bonded debt of the County consists of various issues of General Obligation Bonds, Certificates of Obligation and Revenue Bonds. General Obligation Bonds and Certificates of Obligation are direct obligations of the County with the County's full faith and credit pledged towards the payment of this obligation. General Obligation Bonds are issued upon approval by the public at an election. Certificates of Obligation are issued by the vote of Commissioners Court as allowed under the Certificates of Obligation Act. Debt service is primarily paid from ad valorem taxes. Revenue Bonds are generally payable from the pledged revenue generated by the respective activity for which the bonds are issued.

Outstanding governmental bonded debt as of February 28, 2011 follows:

	Original Issue Amount	Interest Rates (%)	Date Series		Balance February 28, 2011
			Issued	Matures	
Road Bonds					
Refunding Series 1996 - CAB	\$ 124,905,000	5.90-6.00%	1996	2017	\$ 26,260,000
Refunding Series 2001	195,680,000	4.00-5.375%	2001	2023	44,045,000
Refunding Series 2003A	46,105,000	3.00-5.25%	2003	2015	7,325,000
Refunding Series 2004A	56,055,000	3.00-5.00%	2004	2017	36,835,000
Refunding Series 2004B	144,890,000	3.75-5.25%	2004	2024	77,270,000
Refunding Series 2005A	34,420,000	5.00%	2005	2022	34,420,000
Forward Refunding Series 2006A	28,090,000	5.00%	2006	2012	11,165,000
Refunding Series 2006B	266,960,000	4.50-5.00%	2006	2031	230,265,000
Refunding Series 2008A	34,605,000	4.00-5.25%	2008	2020	33,860,000
Refunding Series 2009A	98,880,000	2.00-5.25%	2009	2023	98,035,000
Refunding Series 2010A	84,340,000	4.00-5.00%	2010	2024	84,340,000
	<u>1,114,930,000</u>				<u>683,820,000</u>

HARRIS COUNTY, TEXAS
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	Original Issue Amount	Interest Rates (%)	Date Series		Balance February 28, 2011
			Issued	Matures	
<u>Permanent Improvement Bonds</u>					
Refunding Series 1996 - CAB	26,254,584	5.90-6.00%	1996	2017	15,944,584
Refunding Series 1997	57,930,000	4.70-5.75%	1997	2014	12,870,000
Refunding Series 2001	23,020,000	4.375-5.00%	2001	2011	715,000
Refunding Series 2002	195,665,000	2.75-5.25%	2002	2028	61,465,000
Refunding Series 2003A	29,025,000	3.00-5.00%	2003	2012	4,640,000
Refunding Series 2003B	79,725,000	4.00-5.25%	2003	2013	9,750,000
Refunding Series 2004A	118,535,000	3.00-5.25%	2004	2024	46,835,000
Refunding Series 2005A	69,845,000	5.00%	2005	2022	63,845,000
Refunding Series 2006A	73,545,000	4.00-5.00%	2006	2031	49,750,000
Refunding Series 2008A	34,055,000	3.25-5.00%	2008	2015	18,050,000
Refunding Series 2008B	79,325,000	3.50-5.00%	2008	2019	48,345,000
Refunding Series 2008C	200,495,000	5.00-5.75%	2008	2028	20,640,000
Refunding Series 2009A	23,485,000	4.00-5.00%	2009	2023	23,485,000
Refunding Series 2009B	97,855,000	4.00-5.50%	2009	2027	97,855,000
Refunding Series 2010A	185,390,000	1.50-5.00%	2010	2028	185,390,000
Refunding Series 2010B	93,365,000	4.00-5.00%	2010	2024	93,365,000
Criminal Justice Center Series 2004	63,515,000	3.00-5.00%	2004	2023	46,845,000
GO Revenue Refunding 2002	206,772,045	5.00-5.86%	2002	2028	62,622,045
	<u>1,657,801,629</u>				<u>862,411,629</u>
<u>Flood Control Bonds</u>					
Refunding Series 1993 - CAB	94,464,985	5.40-5.60%	1993	2011	259,024
Refunding Series 2002	44,495,000	3.00-5.50%	2002	2014	6,835,000
Refunding Series 2003A	36,945,000	3.00-6.00%	2003	2015	5,845,000
Refunding Series 2004A	139,865,000	3.00-5.25%	2004	2024	24,155,000
Refunding Series 2006A	94,185,000	5.00%	2006	2031	94,185,000
Improvement Series 2007	89,600,000	4.75-5.00%	2007	2031	89,600,000
Refunding Series 2008A	137,095,000	4.00-5.25%	2008	2021	134,190,000
Refunding Series 2008C	158,100,000	3.00-5.125%	2008	2031	153,245,000
Refunding Series 2010A	181,885,000	5.00%	2010	2039	181,885,000
	<u>976,634,985</u>				<u>690,199,024</u>
<u>Tax & Subordinate Lien Revenue Bonds</u>					
Refunding Series 2004A	3,680,000	4.00-5.00%	2004	2012	2,175,000
Refunding Series 2004B	176,800,000	5.00%	2004	2032	176,800,000
Refunding Series 2009C	28,315,000	4.00-5.25%	2009	2023	28,315,000
	<u>208,795,000</u>				<u>207,290,000</u>
<u>Certificates of Obligation</u>					
Series 2001	32,510,000	4.375-5.125%	2001	2011	995,000
	<u>32,510,000</u>				<u>995,000</u>
TOTAL	<u><u>\$ 3,990,671,614</u></u>				<u><u>\$ 2,444,715,653</u></u>

The Toll Road Project has been financed with a combination of unlimited tax and senior lien revenue bonds, subordinate lien revenue bonds and commercial paper. The proceeds from such bonds, including the interest earned, are being used to finance the construction and the related debt service.

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Outstanding business-type bonded debt at February 28, 2011 follows:

	Original Issue Amount	Interest Rates (%)	Date Series		Balance February 28, 2011
			Issued	Matures	
<u>Senior Lien Revenue Bonds</u>					
Refunding Series 2002	\$ 397,520,000	5.00-5.375%	2002	2024	\$ 163,480,000
Refunding Series 2004A	168,715,000	4.50-5.00%	2004	2033	168,715,000
Refunding Series 2004B	478,270,000	2.50-5.00%	2004	2018	177,795,000
Revenue Series 2006A	135,530,000	4.50-5.00%	2006	2036	135,530,000
Refunding Series 2007A	275,340,000	4.00-5.00%	2007	2033	269,075,000
Refunding Series 2007B	145,570,000	Floating	2007	2036	145,570,000
Refunding Series 2008B	324,475,000	4.625-5.25%	2008	2047	324,475,000
Series 2009A	215,455,000	4.00-5.00%	2009	2038	215,455,000
Series 2009C	250,000,000	5.00%	2009	2049	250,000,000
Refunding Series 2010A	199,915,000	2.00%	2010	2021	199,915,000
Refunding Series 2010C	18,995,000	0.88-2.79%	2010	2016	18,995,000
Refunding Series 2010D	35,420,000	3.00-5.00%	2010	2030	35,420,000
	<u>2,645,205,000</u>				<u>2,104,425,000</u>
<u>Unlimited Tax and Subordinate Lien Bonds</u>					
Refunding Series 1994A	59,925,000	6.50-8.00%	1994	2013	33,160,000
Refunding Series 1995A - CAB	1,500,000	5.80-6.05%	1995	2012	250,000
Refunding Series 1997	150,395,000	5.00-5.125%	1997	2024	25,855,000
Refunding Series 1997 - CAB	2,790,000	3.90-5.25%	1997	2013	600,000
Refunding Series 2001	120,740,000	6.00%	2001	2014	84,925,000
Refunding Series 2002	42,260,000	4.00-5.25%	2002	2015	15,085,000
Refunding Series 2007C	321,745,000	5.00-5.25%	2007	2033	321,745,000
Refunding Series 2008A	76,240,000	3.25-5.00%	2008	2016	76,240,000
Refunding Series 2010B	25,410,000	0.77-2.09%	2010	2015	25,410,000
	<u>801,005,000</u>				<u>583,270,000</u>
TOTAL	<u>3,446,210,000</u>				<u>2,687,695,000</u>

Annual debt service requirements to maturity as of February 28, 2011 are as follows:

Fiscal year	<u>Governmental Activities</u>				
	Principal At 2/28/2011	Capital Appreciation Bonds	Principal Value At Maturity	Interest	Total
2012	\$ 63,189,024	\$ 1,061,020	\$ 64,250,044	\$ 116,323,014	\$ 180,573,058
2013	77,645,000	-	77,645,000	110,585,631	188,230,631
2014	69,752,924	16,654,155	86,407,079	108,083,034	194,490,113
2015	84,150,845	16,605,233	100,756,078	102,893,190	203,649,268
2016	85,049,530	15,768,655	100,818,185	99,656,275	200,474,460
2017-2021	622,091,205	35,815,183	657,906,388	436,288,082	1,094,194,470
2022-2026	712,267,388	8,834,518	721,101,906	268,672,335	989,774,241
2027-2031	516,009,737	2,580,163	518,589,900	112,780,632	631,370,532
2032-2036	154,200,000	-	154,200,000	23,999,097	178,199,097
2037-2041	60,360,000	-	60,360,000	12,072,500	72,432,500
	<u>\$ 2,444,715,653</u>	<u>\$ 97,318,927</u>	<u>\$ 2,542,034,580</u>	<u>\$ 1,391,353,790</u>	<u>\$ 3,933,388,370</u>

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Fiscal year	Business-Type Activities				
	Principal	Capital	Principal	Interest	Total
	At 2/28/2011	Appreciation Bonds	Value At Maturity		
2012	\$ 83,025,000	\$ 9,973,968	\$ 92,998,968	\$ 137,823,380	\$ 230,822,348
2013	91,405,000	7,843,886	99,248,886	135,865,846	235,114,732
2014	105,305,000	2,271,313	107,576,313	122,622,305	230,198,618
2015	103,025,000	-	103,025,000	124,298,847	227,323,847
2016	95,345,000	-	95,345,000	108,812,147	204,157,147
2017-2021	512,240,000	-	512,240,000	464,595,003	976,835,003
2022-2026	443,835,000	-	443,835,000	361,203,815	805,038,815
2027-2031	426,290,000	-	426,290,000	257,285,924	683,575,924
2032-2036	537,405,000	-	537,405,000	137,181,099	674,586,099
2037-2041	149,235,000	-	149,235,000	52,573,975	201,808,975
2042-2046	90,620,000	-	90,620,000	25,525,025	116,145,025
2047-2051	49,965,000	-	49,965,000	3,250,269	53,215,269
	<u>\$ 2,687,695,000</u>	<u>\$ 20,089,167</u>	<u>\$ 2,707,784,167</u>	<u>\$ 1,931,037,635</u>	<u>\$ 4,638,821,802</u>

SIGNIFICANT DEBT COVENANTS

The Senior Lien Revenue Bonds are payable from the revenues of the Toll Road. The Tax Bonds are secured by and payable from a pledge of the County's unlimited ad valorem tax and also are secured by a pledge of and lien on the revenues of the Toll Road, subordinate to the lien of the Senior Lien Revenue Bonds. The County has covenanted to assess a maintenance tax to pay project expenses if revenues, after paying debt service, are insufficient. The County also has covenanted to collect tolls to produce revenues at the beginning of the third fiscal year following completion of the Toll Road equal to at least 1.25 times the debt service requirements on the Senior Lien Revenue Bonds. The revenue coverage requirement became effective with the completion of the project during fiscal year 1994. The Toll Road Project's revenue coverage ratio for fiscal year 2011 was 3.86.

B. COMMERCIAL PAPER

In addition to the outstanding bonded debt of the County, the Commissioners Court has established a general obligation commercial paper program secured by ad valorem taxes for the purpose of financing various short-term assets and temporary construction financing for certain long-term capital assets. The commercial paper program consists of six series totaling \$1.0 billion payable from ad valorem taxes levied and Toll Road revenues. As of February 28, 2011, the County has outstanding, \$343.1 million of commercial paper. Commissioners Court, by policy, limits the period allowed for a commercial paper project not to exceed three years. During the length of time the paper is outstanding, the paper may have a maturity term of 1 – 270 days.

The County enters into agreements with credit facilities to provide a line of credit that will act as assurance to the purchaser of the commercial paper that funds will be available to redeem the paper upon demand and that the County can rollover the commercial paper. For Commercial Paper Series A-1, the County has a credit agreement with State Street Bank and Trust Company, which expires August 20, 2013. For this line of credit, the County is assessed a fee of .55% per annum on the daily amount of the commitment. If converted to a term loan, the principal amount for Series A-1 is to be paid in twelve substantially equal installments due quarterly on the last business day of the month in

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which such payment is due, commencing with the first such installment due on the term loan commencement date. For Commercial Paper Series B & C, the County has a credit agreement with the Bank of America, N.A., which expires August 20, 2013. For this line of credit, the County is assessed a fee of .45% per annum on the daily amount of commitment. If converted to a term loan, the principal amount for Series B and C is to be paid in twelve substantially equal installments due quarterly on the last business day of the month in which such payment is due, commencing with the first such installment due on the term loan commencement date. For Commercial Paper Series D, the County has a credit agreement with JPMorgan Chase Bank, National Association, which expires August 20, 2013. For this line of credit the County is assessed a fee of .50% per annum on the daily amount of commitment. If converted to a term loan, the principal amount outstanding for Series D is to be paid in twelve substantially equal installments due quarterly on the last business day of the month in which such payment is due, commencing with the first such installment due on the term loan commencement date. Interest is payable quarterly in arrears, at a rate per annum equal to the bank rate, provided that the principal amount of any term loan not paid when due shall bear interest at a rate per annum equal to the lesser of (A) the default rate (fluctuating rate of per annum interest equal to the greater of (i) the base rate plus 2.00% or (ii) the federal funds rate plus 2.00%) and (B) the highest lawful rate.

COMMERCIAL PAPER – FLOOD CONTROL

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. As of February 28, 2011, there is no outstanding Series F commercial paper.

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%. 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. The

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tax year 2010 tax rate adopted by Commissioners Court for fiscal year 2011 to satisfy the annual amount due under the flood contracts related to the 2% limitation was .01378. Based on the County's outstanding indebtedness as of February 28, 2011 (exclusive of Flood Control District debt), this amount required under the 2% limitation is estimated to be zero.

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

The Series F Notes are also secured through an irrevocable, direct-pay, transferable letter of credit between the Flood Control District and the New York branch of Landesbank Hessen-Thüringen Girozentrale. The amount of the letter of credit totals \$214,794,521. This total includes the principal amount of the notes (\$200,000,000) and interest of \$14,794,521 calculated at 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, 2012 and is subject to extension. 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 is payable quarterly. Under the terms of the letter of credit, the Flood Control District is charged a quarterly fee, based on the daily average amount of the outstanding draws against the letter of credit ranging from 0.25% to 1.00%, depending on the County's long term parity debt rating. In addition, there are fixed transactional fees ranging from \$175 to \$5,000.

COMMERCIAL PAPER – TOLL ROAD

In addition to the outstanding long-term debt of the Toll Road Authority ("Toll Road"), the Commissioners Court has established a commercial paper program secured by and payable from Toll Road revenues. The commercial paper program consists of Harris County Toll Road Senior Lien Revenue Notes, Series E ("Notes") in an aggregate principal amount not to exceed \$200 million outstanding at any one time. As of February 28, 2011, the Toll Road has no outstanding commercial paper, nor was there any Series E commercial paper activity during the year then ended.

The purpose of the Series E Notes is to provide funding for costs of acquiring, constructing, operating and maintaining, and improving Toll Road Project components, as well as to fund reserves, pay interest during construction, refinance, refund, and renew the notes themselves, and fund issuance costs.

CHANGES IN COMMERCIAL PAPER

The following is a schedule of changes in commercial paper for the year ended February 28, 2011:

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	Balance Outstanding March 1, 2010	Issued	Retired/ Refunded	Balance Outstanding February 28, 2011	Amount Due Within One Year
<u>Governmental Activities</u>					
Commercial Paper A-1, B, C	\$ 189,253,000	\$ 74,810,000	\$ -	\$ 264,063,000	\$ -
Commercial Paper D	32,360,000	46,740,000	-	79,100,000	-
Commercial Paper - Flood Control	110,435,000	89,565,000	(200,000,000)	-	-
	<u>\$ 332,048,000</u>	<u>\$ 211,115,000</u>	<u>\$ (200,000,000)</u>	<u>\$ 343,163,000</u>	<u>\$ -</u>

DEBT SERVICE TO MATURITY - COMMERCIAL PAPER

Expected debt service requirements for the various Commercial Paper issuances are shown below. These requirements assume that as of February 28, 2011 the County had drawn down the outstanding principal balance on the lines of credit and letter of credit and subsequently executed term loans with the banks for a principal balance of \$343,163,000 at the average rate for the quarter ending February 28, 2011 by series and reflect the effects of any refundings.

<u>Fiscal year</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 28,596,916	\$ 13,047,343	\$ 41,644,259
2015	114,387,666	41,316,587	155,704,253
2016	114,387,667	23,924,072	138,311,739
2017	85,790,751	6,541,544	92,332,295
	<u>\$ 343,163,000</u>	<u>\$ 84,829,546</u>	<u>\$ 427,992,546</u>

C. COMPONENT UNITS' LONG-TERM LIABILITIES

The County has no obligation to assume any liability for the bonds issued by any of the discretely presented component units.

The total long-term liabilities of the Harris County Hospital District was \$417,570,000 as of February 28, 2011 which comprises 97% of the total long-term liabilities of the County's discretely presented component units. These bonds are secured by a lien on the pledged revenues of the Harris County Hospital District and certain funds pursuant to the bond order.

The Harris County Hospital District also has defeased bonds, in the amount of \$186,785,000 whereby the proceeds are held as irrevocable deposits of funds sufficient with trustees to pay the principal and interest of such bonds through their maturity. Accordingly, these trustee funds and the related defeased indebtedness are excluded from the Harris County Hospital District's balance sheet as of February 28, 2011.

The total long-term liabilities of the MHMRA was \$12,728,940 of which \$7,684,454 represents long-term liabilities of the primary government (comprised of \$4,560,701 notes payable and \$3,123,753 compensated absences), as of August 31, 2010 which comprises 3% of the total long-term liabilities of the County's discretely presented component units.

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D. COMPONENT UNITS' CONDUIT DEBT OBLIGATIONS

Harris County Industrial Development Corporation, Harris County Housing Finance Corporation, Harris County Health Facilities Development Corporation and Harris County Cultural Education Facilities Finance Corporation have issued bonds to provide financial assistance to private and public sector entities engaged in activities that are deemed to be in the public interest. These bonds are limited obligations of the issuing entities payable solely from the proceeds of the underlying financing agreements, and in the opinion of legal counsel, do not represent indebtedness or liability to the issuing entity, Harris County, the State of Texas, or any political subdivision; therefore, the bonds are not reported as liabilities in the accompanying financial statements. The Harris County Health Facilities Development Corporation and Harris County Cultural Education Facilities Finance Corporation have no other financial activity that would materially affect the County's financial statements, and are not required to issue separate audited financial statements, and as a result are not included in the Reporting Entity disclosure within the accompanying notes to the financial statements. A summary of the debt issued by each entity follows.

Harris County Industrial Development Corporation

The Corporation has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from the payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Corporation, nor the County, nor any political subdivision thereof is obligated in any manner for repayment of the bonds.

As of August 31, 2010, there were thirteen (13) series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable at August 31, 2010 for the bonds issued after September 1, 1996, was approximately \$681,222,970.

Harris County Housing Finance Corporation

As of December 31, 2010, there were forty-two (42) series of bonds outstanding with an aggregate principal payable of \$334,190,703. These bonds have been issued by the Housing Finance Corporation to provide financing for the purpose of purchasing single family home mortgages and multifamily home projects for low and moderate income owners/residents, and will be repaid from sources defined in the various underlying financing agreements between the Housing Finance Corporation and the entities for whose benefit the bonds were issued.

Harris County Health Facilities Development Corporation

The corporation issues bonds if there is a public benefit or public purpose that is necessary or convenient for health care, research or education. As of February 28, 2011 there were forty-two (42) series of bonds outstanding with an aggregate principal payable of \$2,976,290,000. The bonds will be repaid from sources defined in the various underlying financing agreements between the Health Facilities Development Corporation and the entities for whose benefit the bonds were issued.

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Harris County Cultural Education Facilities Finance Corporation

As of February 28, 2011 there were twenty-nine (29) series of Bonds outstanding with an aggregate principal payable of \$2,129,216,627. The bonds were issued for the purpose of defraying expansion costs, for Space Center Houston projects, Houston Livestock Show and Rodeo projects, Baylor College of Medicine, Memorial Hermann Healthcare System, Methodist Hospital System, Texas Medical Center projects and the Young Men's Christian Association (YMCA) of the Greater Houston Area. The bonds will be repaid from payments required to be made under loan agreements between the issuing entity and the aforementioned parties.

E. UNISSUED AUTHORIZED BONDS

Capital projects are funded primarily by the issuance of bonded debt. The County has received voter approval for the issuance of bonds to maintain an ongoing capital improvement program.

The following is the summary of authorized, issued and unissued bonds and commercial paper:

<u>Description</u>	Year of Voter Authorization	Amount Authorized	Issued as of 2/28/2011	Authorized but Unissued as of 2/28/2011
(amounts in millions)				
<u>Ad Valorem Tax Bonds</u>				
Toll Road	1983	\$ 900.0	\$ 884.9	\$ 15.1
Civil Justice Center	1999	119.0	86.0	33.0
Roads	2001	475.0	475.0	-
Parks	2007	95.0	14.3	80.7
Forensic Lab	2007	80.0	-	80.0
Family Law Center	2007	70.0	-	70.0
Roads	2007	190.0	20.0	170.0
Total Ad Valorem Tax Bonds		<u>\$ 1,929.0</u>	<u>\$ 1,480.2</u>	<u>\$ 448.8</u>

F. REFUNDING/ISSUANCE OF DEBT

On March 11, 2010, the County issued \$185,390,000 Permanent Improvement Refunding Bonds, Series 2010A to refund and defease a portion of the County's outstanding Permanent Improvement Refunding Bonds, Series 2004A, and Series 2008C, and to pay costs of such issuance. The annual interest rates range from 1.5% to 5.0%. The issuance had a premium of \$21,219,235. Interest accrues semiannually and the bonds mature in fiscal year 2028. The refunding resulted in a decrease in cash flow requirements of \$9,343,205 and had an economic gain of \$7,771,125.

On May 12, 2010, the County pledged a \$10,000,000 Federal Home Loan Mortgage Corp. (FHLMC) bond to Citibank to cover the collateral threshold shortfall on the \$199,915,000 interest rate swap for the 2009B Series bonds.

On June 30, 2010, the County issued \$450,000,000 in Tax Anticipation Notes, Series 2010. The tax anticipation notes were issued to fund the County's cumulative cash flow deficit for the fiscal year beginning March 1, 2010 and ending February 28, 2011, and were repaid from fiscal year 2011 tax revenues. The tax anticipation notes, which matured February 28, 2011, were issued at an annual interest rate range of 1.5% to 2.0%.

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On July 1, 2010, the County pledged a \$10,000,000 Federal National Mortgage Association (FNMA) bond to Citibank to cover the collateral threshold shortfall on the \$199,915,000 interest rate swap for the 2009B Series bonds and a portion of the \$72,785,000 interest rate swap for the 2007B Series bonds. The FHLMC bond pledged on May 12, 2010 was returned.

On July 1, 2010, the County pledged a \$10,000,000 Federal National Mortgage Association (FNMA) bond to JP Morgan Chase to cover the collateral threshold shortfall the \$72,785,000 interest rate swap for the 2007B Series bonds.

On July 7, 2010, the County issued \$84,340,000 Unlimited Tax Road Refunding Bonds, Series 2010A to refund and defease a portion of the Unlimited Tax Road Refunding Bonds, Series 2001, Series 2003A, Series 2003B, Series 2004B, and Series 2006B and to pay the costs of such issuance. The annual interest rates range from 4.0% to 5.0%. The issuance had a premium of \$10,370,333. Interest accrues semiannually and the bonds mature in fiscal year 2024. The refunding resulted in a decrease in cash flow requirements of \$8,040,299 and had an economic gain of \$1,922,369.

On July 7, 2010, the County issued \$93,365,000 Permanent Improvement Refunding Bonds, Series 2010B to refund and defease a portion of the Permanent Improvement Refunding Bonds, Series 2002, Series 2003B, Series 2004A, Series 2006A, Series 2008B, and Series 2008C and to pay the costs of such issuance. The annual interest rates range from 4.0% to 5.0%. The issuance had a premium of \$12,804,981. Interest accrues semiannually and the bonds mature in fiscal year 2024. The refunding resulted in a decrease in cash flow requirements of \$4,160,264 and had an economic gain of \$2,341,886.

On August 11, 2010, the County issued \$199,915,000 in Toll Road Senior Lien Revenue Refunding Bonds, Series 2010A to refund and defease the Toll Road Senior Lien Revenue Refunding Bonds, Series 2009B and to pay the costs of such issuance. The initial interest rate is 2.0%. The issuance had a premium of \$3,324,586. Interest accrues semiannually and the bonds mature in fiscal year 2021. This issue had not economic gains or losses.

On August 13, 2010, the County pledged a \$10,000,000 Federal National Mortgage Association (FNMA) bond to JP Morgan Chase to cover the collateral threshold shortfall on the \$72,785,000 interest rate swap for the 2007B Series bonds. The FNMA bond pledged on July 1, 2010 was returned.

On September 3, 2010, the County pledged a \$25,000,000 FNMA bond to Citibank to cover the collateral shortfall on the \$199,915,000 interest rate swap for the 2010A Series bonds.

On September 23, 2010, the District issued \$181,885,000 Flood Control District Contract Tax Bonds, Series 2010A to defease all or a portion of the District's Contract Tax Commercial Paper Notes, Series F and to pay costs of such issuance. The annual interest is 5.0%. The issuance had a premium of \$19,722,759. Interest accrues semiannually and the bonds mature in fiscal year 2040.

On October 27, 2010, the interest rate swap with Goldman Sachs Capital Markets, L.P., relating to the Tax and Subordinate Lien Revenue Refunding Bonds, Series 2004A and 2004B bond issues

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was terminated. The County received a final payment of \$1,300,000.

On November 18, 2010, the County issued \$25,410,000 of Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2010B to provide additional funds to pay qualifying costs of toll road projects, to partially refund and defease the County's outstanding Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2002 and to pay the costs of such issuance. The annual interest rates range from 0.77% to 2.09%. Interest accrues semiannually and the bonds mature in fiscal year 2015. The refunding resulted in a decrease in cash flow requirements of \$859,862 and had an economic gain of \$822,116.

On November 18, 2010, the County issued \$18,995,000 of Toll Road Senior Lien Revenue Refunding Bonds, Taxable Series 2010C to partially refund and defease the County's outstanding Toll Road Senior Lien Revenue Refunding Bonds, Series 2002 and to pay the costs of such issuance. The annual interest rates range from 0.88% to 2.79%. Interest accrues semiannually and the bonds mature in 2016. The refunding resulted in a decrease of cash flow requirements of \$536,539 and had an economic gain of \$508,204.

On November 18, 2010, the County issued \$35,420,000 of Toll Road Senior Lien Revenue Refunding Bonds, Series 2010D to partially refund and defease County's outstanding Toll Road Senior Lien Revenue Refunding Bonds, Series 2002, Toll Road Senior Lien Revenue Refunding Bonds, Series 2005A and to pay the costs of such issuance. The annual interest rates range from 3.0% to 5.0%. This issuance had a premium of \$1,670,777. Interest accrues semiannually and the bonds mature in 2030. The refunding resulted in a decrease in cash flow requirements of \$2,264,225 and had an economic gain of \$1,693,136.

On February 25, 2011, the County pledged a \$15,000,000 FNMA bond to Citibank to cover the collateral shortfall of the \$199,915,000 interest rate swap for the 2010A Series bonds. The collateral pledged on September 3, 2010 was returned.

G. DEFEASANCE OF DEBT

In fiscal year 2011 and in prior years, the County has defeased certain property tax bonds, revenue bonds, certificates of obligation and Toll Road revenue bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. The trust account assets and the liability for the defeased bonds are not included in the County's basic financial statements.

As of February 28, 2011, the outstanding principal balance of these defeased bonds was as follows:

Property Tax Bonds:	Road	\$ 312,230,000
	Permanent Improvement	675,115,000
Revenue Bonds:	Hotel Occupancy	3,360,000
Flood Control:	Flood Control	430,360,000
Certificates of Obligation:	General Obligation	71,500,000
Tax & Subordinate Lien Bonds:	Tax & Subordinate Lien	22,170,000
Toll Road Bonds:	Senior Lien Revenue Bonds	1,155,225,000
	Tax Bonds	839,600,000
Total Defeased Bonds		<u><u>\$ 3,509,560,000</u></u>

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H. 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. As of February 28, 2011 there were no estimated liabilities for arbitrage rebate on governmental debt or enterprise debt. The Debt Service Funds have typically been used to liquidate arbitrage liabilities in previous years.

I. INTEREST RATE SWAPS

TOLL ROAD: The County entered interest rate swaps with Citibank, N.A., New York, relating to the Toll Road Authority, Series 2010A and the Senior Lien Revenue Refunding Bonds, Series 2007B. The County entered an interest rate swap with JPMorgan Chase Bank, National Association, relating to the Senior Lien Revenue Refunding Bonds, Series 2007B. The purpose of the swaps was to create a fixed cost of funds on certain maturities of the related bonds that are lower than the fixed cost achievable in the cash bond market.

Terms:

	Citibank-Toll Road Authority, Series 2010A	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Trade Date:	November 28, 2006	May 22, 2007	May 22, 2007
Effective Date:	August 15, 2009	June 14, 2007	June 14, 2007
Termination Date:	August 15, 2019	February 15, 2035	February 15, 2035
Initial Notional Amount: (a)	\$199,915,000	\$72,785,000	\$72,785,000
Authority Pays Fixed:	3.626%	4.398%	4.398%
Counterparty Pays Floating:	70% of 1 Month LIBOR	67% of 3 Month LIBOR + .67%	67% of 3 Month LIBOR + .67%
Payment Dates:	The 15 th day of each month	The 15 th day of February, May, August and November	The 15 th day of February, May, August and November
Collateral Threshold: (b)	(\$15,000,000) (c)	(\$15,000,000)	(\$15,000,000)
Fair Value as of 2/28/10:	(\$20,796,325)	(\$10,892,319)	(\$10,892,319)
(a) The notional amount for the swaps amortizes to match the outstanding bond. (b) Collateral threshold represents the maximum exposure that the counterparty is required to accept without a pledge of collateral. The difference between the fair value and the collateral threshold must be covered by County collateral. The maximum collateral threshold ceiling is \$45,000,000. (c) The County pledged FNMA note with a \$15,000,000 par, at 1.5%, has been transferred to Citibank as collateral under the terms of the swap agreements related to the Toll Road Senior Revenue Refunding Bonds, Series 2010A.			

Fair Value: Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using information obtained from generally recognized sources with respect to quotations, reporting of specific transactions and market conditions and based on accepted industry standards and methodologies.

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Summary of GASB 53 Effectiveness Testing:

	Citibank-Toll Road Authority, Series 2010A	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Derivative Instrument	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap
Hedge Type	Cash Flow Hedge	Cash Flow Hedge	Cash Flow Hedge
Method of Effectiveness Testing	Dollar Offset	Consistent Critical Terms	Consistent Critical Terms
Result of Effectiveness Testing	Effective	Effective	Effective

Risks:

	Citibank-Toll Road Authority, Series 2010A	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Credit Risk: Credit Ratings Moody's, S&P, and Fitch	A1, A+, and A+	A1, A+, and A+	Aa1, AA-, and AA-
Interest Rate Risk – risk that changes of rates in the bond market will negatively affect the cash flow to the County in a SWAP transaction.	Citi Bank NA pays 70% of 1 month LIBOR, while the County pays a fixed rate of 3.626%.	Citi Bank NA pays 67% of 3 month LIBOR + 67bp, while the County pays a fixed rate of 4.398%.	JP Morgan Chase Bank NA pays 67% of 3 month LIBOR + 67bp, while the County pays a fixed rate of 4.398%.
Termination Risk – risk that the SWAP must be terminated prior to its stated final cash flow.	The exposure to the County is \$20,796,325, which is based on a fair market value calculation.	The exposure to the County is \$10,892,319, which is based on a fair market value calculation.	The exposure to the County is \$10,892,319, which is based on a fair market value calculation.

J. SUBSEQUENT DEBT RELATED ACTIVITY

On May 24, 2011, the County pledged a \$20M Federal National Mortgage (FNMA) bond to Citibank to cover the collateral threshold shortfall on the \$199,915,000 interest rate swap for the Series 2010A bonds. The FNMA bond pledged on February 25, 2011 was returned.

On July 21, 2011, the County issued \$450,000,000 in Tax Anticipation Notes, Series 2011. The tax anticipation notes were issued to fund the County's cumulative cash flow deficit for the fiscal year beginning March 1, 2011 and ending February 29, 2012, and will be repaid from fiscal year 2012 tax revenues. The tax anticipation notes, which mature February 29, 2012 and will pay interest at a range of 1.5% to 2.5%..

On August 1, 2011, the County pledged a \$5M Federal Farm Credit Bank bond to JP Morgan to cover the collateral threshold shortfall on the \$72,785,000 interest rate swap for the Series 2007B bonds. There was no change to the collateral pledged to Citibank.

On August 11, 2011, the County pledged a \$5M Federal Farm Credit Bank bond to JP Morgan to cover the collateral threshold shortfall on the \$72,785,000 interest rate swap for the Series 2007B bonds. There was no change to the collateral pledged on August 1, 2011.

On August 11, 2011, the County issued \$199,915,000 of Toll Road Senior Lien Revenue Refunding Bonds, Series 2011A to refund and defease County's outstanding Toll Road Senior Lien Revenue Refunding Bonds, Series 2010A, and to pay the costs of such issuance. The annual interest rate is 2.0%. This issuance had a premium of \$3,488,517. Interest accrues semiannually and the bonds mature in 2021.

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11. COMPENSATED ABSENCES PAYABLE

Changes in long-term compensated absences for the year ended February 28, 2011 were as follows:

	Balance			Balance	Amount
	Outstanding		Taken/	Outstanding	Due Within
	March 1, 2010	Earned	Paid	February 28, 2011	One Year
Governmental Activities	\$ 38,888,981	\$ 18,505,990	\$ (21,774,880)	\$ 35,620,091	\$ 22,084,456
Business-type Activities	1,316,727	651,678	(737,367)	1,231,038	763,244
Total	\$ 40,205,708	\$ 19,157,668	\$ (22,512,247)	\$ 36,851,129	\$ 22,847,700

12. RETIREMENT PLAN

Plan Description

Harris County provides retirement, disability, and death benefits for all of its employees (excluding temporary) 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 618 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 TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCDRS enacted in 1991, effective January 1, 1992, the County selected a 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 County 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 County are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 2011 is 9.82%. The contribution rates for calendar years 2010 and 2009 were 11.31 % and 9.74 %, respectively.

The plan provisions are adopted by 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, 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 of service 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 County.

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

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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 County has elected the annually determined contribution rate ("ADCR") plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The County contributed using actuarially determined rate of 11.31% for the months of the calendar year in 2010, and 9.82% for the months of the calendar year in 2011.

The contribution rate payable by the employee members for 2010 and 2011 is the rate of 7% and 6% respectively, 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.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension Cost

For the County's fiscal year ending February 28, 2011, the annual pension cost for the TCDRS plan and the actual contributions for its employees were \$89,543,487. (This excludes actuarial contributions of \$3,459,657 for Community Supervision, which is not considered a department or component unit of the County.) 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, 2009 and December 31, 2010, the basis for determining the contribution rates for calendar years 2010 and 2011. The December 31, 2010 is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/08	12/31/09	12/31/10
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period in years	20	20	20
Asset Valuation Method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumption			
Investment return (1)	8.0 %	8.0 %	8.0 %
Projected Salary Increases (1)	5.3 %	5.4 %	5.4 %
Inflation	3.5 %	3.5 %	3.5 %
Cost of Living Adjustments	0.0%	0.0%	0.0%
(1) Includes inflation at the stated rate.			

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Harris County Trend Information			
Accounting Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2/28/11	\$ 89,543,487	100%	-
2/28/10	\$ 84,946,672	100%	-
2/28/09	\$ 79,047,481	100%	-

Schedule of Funding (including Community Supervision)	
Actuarial Valuation Date	12/31/10
Actuarial Value of Assets	\$2,739,687,861
Actuarial Accrued Liability (AAL)	\$3,123,164,193
Unfunded Actuarial Accrued Liability (UAAL)	\$ 383,476,332
Funded Ratio	87.72%
Annual Covered Payroll (Actuarial)	\$ 849,143,883
UAAL as Percentage of Covered Payroll	45.16%

13. OTHER POST EMPLOYMENT BENEFITS

THE PLAN:

Plan Description

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

Membership in the plan at March 1, 2009, the date of the latest actuarial valuation, consists of the following:

Retirees and beneficiaries receiving benefits	3,361
Active plan members	14,841
Number of participating employers	5

Summary of Significant Accounting Policies

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

Method Used to Value Investments. Investments are reported at fair value, which is based on quoted market prices with the difference between the purchase price and market price being recorded as earnings on investments.

Contributions

Local Government Code Section 157.102 assigns to Commissioners Court the authority to establish and amend contribution requirements of the plan members and the participating employers. The

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following tables present the criteria for the employers' contribution to the retiree's and qualifying dependent's benefits:

Retired Prior to March 1, 2002:

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

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

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

Eligible to Retire March 1, 2011 or After:

A combination of age plus a minimum of 10 years of non-forfeited Harris County/ TCDRS service equal to 80 or at least age 65 with a minimum of 10 years of non-forfeited Harris County/TCDRS service to receive 100% County contributions for retiree coverage and 50% for dependent coverage. Retirees under age 65 will be required to pay an additional contribution as determined by Commissioners Court.

Employees Hired on or After March 1, 2007:

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

The Plan rates charged to retirees are set annually by Commissioners Court based on the combination of premiums and prior year costs of the self-funded portion of the plan. The Plan is funded on a pay-as-you-go basis. For the year ended February 28, 2011, plan members or beneficiaries receiving benefits contributed \$5.28 million, or approximately 13.6 percent of total benefits paid during the year. Participating employers contributed \$33.59 million. The total contributions for the year ended February 28, 2011 were \$38.87 million. Total contributions included actual medical claims paid, premiums for other insurance and administrative costs calculated through an annual rate calculation.

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THE EMPLOYER:

Annual OPEB Cost and Net OPEB Obligation

For fiscal year 2011, the County's annual OPEB cost (expense) was \$88,451,513 for the post employment healthcare plan. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended February 28, 2011 were as follows:

Annual Required Contribution (ARC)	\$ 91,445,740
Add interest on Net OPEB Obligation	9,946,649
Less adjustment to Annual Required Contribution	(12,940,876)
Annual OPEB Cost	88,451,513
Less Contributions made	(33,588,280)
Change in Net OPEB Obligation	54,863,233
Net OPEB Obligation beginning of the year	198,932,991
Net OPEB Obligation end of the year	\$ 253,796,224

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net Ending OPEB Obligation
2/28/2009	\$ 96,615,958	\$ 26,823,612	28%	\$ 140,001,754
2/28/2010	89,338,513	30,407,276	34%	198,932,991
2/28/2011	88,451,513	33,588,280	38%	253,796,224

The above tables include information for the 5 participating employers to the agent multiple-employer defined benefit post employment healthcare plan that the County administers. Two of the employers, Emergency 911 and Community Supervision, are not considered departments or component units of the County. The annual net OPEB obligation for Emergency 911 and Community Supervision is \$379,397 and \$0 respectively for fiscal year 2010. The annual net OPEB obligation for Emergency 911 and Community Supervision is \$468,194 and \$0 respectively at February 28, 2011.

Funded Status and Funding Progress. The funded status of the plan as of March 1, 2009 (most recent actuarial valuation) was as follows:

Unfunded actuarial accrued liability (UAAL)	\$ 859,681,747
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 722,468,180
UAAL as percentage of covered payroll	119%

The above table includes UAAL of \$915,483 for Emergency 911 and UAAL of \$16,210,643 for Community Supervision.

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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The actuarial assumptions used in calculating the County's UAAL and ARC are elaborated later in this note. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are made on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In order to perform the valuation, it was necessary for the County and the actuary to make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare trend and interest rates.

In the March 1, 2009 actuarial valuation, a 5.00% discount rate was used. The medical trend rates of 8% for 2009 and 7% for 2010 graded down to an ultimate rate of 5% by 2012 per the best estimate of expected long-term plan experience.

The actuarial cost method used in valuing the County's liabilities was the Projected Unit Cost Method. Under this method the benefits of each individual included in the valuation were allocated by a consistent formula over the years. The amortization period and method utilized was 30 year level dollar open period.

Additional Disclosures

Texas Local Government Code, Chapter 175 requires counties to make available continued health benefits coverage under certain circumstances to retirees and their dependents beyond the end of an individual's employment with the County ("Continuation Coverage") by permitting covered employees to purchase continued health benefits coverage in retirement. Texas law does not require counties to fund all or any portion of such coverage.

Because the County is given the authority to pay OPEB for its retired employees, it may incur a debt obligation to pay for OPEB so long as the County follows the constitutional requirement that it have sufficient taxing authority available at the time such debt is incurred to provide for the payment of the debt and has in fact levied a tax for such purpose concurrently with the incurrence of the debt. Any debt incurred in contravention of this constitutional requirement is considered void and payment will not be due. Harris County has not incurred a legal debt obligation for OPEB and has not levied a tax for the same. The County funds the cost associated with OPEB on a current "pay as you go" basis for a single fiscal year through an annual appropriation authorized by Commissioners Court during the County's annual budget adoption process.

GAAP requires governmental organizations to recognize an actuarially calculated accrued

HARRIS COUNTY, TEXAS
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liability for OPEB, even though it may not have a legally enforceable obligation to pay OPEB benefits.

Information and amounts presented in the County's Comprehensive Annual Financial Report relative to OPEB expense/expenditures, related liabilities (assets), note disclosures, and supplementary information are only intended to achieve compliance with the requirements of generally accepted accounting principles (GASB 45) and does not constitute or imply that the County is legally obligated to provide OPEB benefits.

The schedule of funding progress, presented as Required Supplementary Information, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

14. RISK MANAGEMENT

The County's risk-of-loss exposures include exposure to liability and accidental loss of real and personal property as well as human resources. County operations involve a variety of high risk activities including, but not limited to, law enforcement, cash collections, construction, and maintenance activities. The Office of Human Resources & Risk Management is responsible for identifying, evaluating, and managing risk in order to reduce the exposure from liability and accidental loss of property and human resources.

The County has established the Risk Management Internal Service Fund to account for risk management activity. Risk financing activities include the purchase of property insurance, professional liability insurance, and crime and fidelity coverage. Harris County is self-insured for general liability, vehicle liability, and liability from property damage claims. Such non-litigated claims are handled on a pay-as-you-go basis and are expensed as paid; due to immateriality, no liabilities are reported in the financial statements for such claims or for an estimate of any claims which may have been incurred but have not been reported. Any liability arising from operation of motorized equipment will be considered under the Texas Tort Claims Act.

The County is self-insured for workers' compensation claims and reimburses a third-party administrator who evaluates and pays claims in accordance with State statute. The County's workers' compensation self-insurance program provides medical and indemnity payments as required by law for job-related injuries. The County has insurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the policy for the fiscal year ended February 28, 2011 is \$850,000 per occurrence. The liability for outstanding losses includes an actuarially determined amount for incurred but not reported claims. Interfund premiums for workers' compensation are actuarially determined by claims expense experience and payroll history. During the past three fiscal years, there was one claim paid that exceeded the insurance coverage.

Contracted insurance providers receive disbursements from the Risk Management Fund based upon monthly enrollment and premium calculations. Departmental billings for premiums for property insurance, professional liability insurance, and crime and fidelity policies, as well as payments to the insurance carriers, are handled through the Risk Management Fund. Payments by the County for

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general, vehicle, and property damage liability claims, for which the County is self-insured, are made through the Risk Management Fund unless litigation is involved. The County Attorney's Office handles any claims involving litigation.

The Risk Management Fund (Workers' Compensation) is available to pay claims and administrative costs of the programs and to fund claim reserves. During fiscal year 2011, a total of \$13,494,597 was paid in benefits and administrative costs. As of February 28, 2011, claims liability, including an actuarial estimate of claims that have been incurred but not reported and accrued unpaid claims administration, totaled \$25,225,310.

The following is a summary of the changes in worker's compensation claims liability for the Risk Management Fund for the fiscal years 2011 and 2010:

	2011	2010
Claims liability, beginning of fiscal year	\$ 25,506,037	\$ 23,996,709
Incurred claims (including IBNRs)	5,299,217	5,926,363
Claim payments	(5,579,944)	(4,417,035)
Claims liability, end of fiscal year	\$ 25,225,310	\$ 25,506,037

The County currently provides medical, dental, vision, and basic life and disability insurance benefits to eligible employees and retirees. The County pays the full cost of employee coverage and 50% of the cost of dependent premiums. The total obligation for health insurance benefits is limited to the monthly premiums payable during the year and is based upon the number of enrolled employees, retirees and dependents during the year. The disability insurance will pay up to 50% of an employee's salary for two years with an employee paid option to extend the benefits period to age 65 and increase the percentage to 60%. The contributions and benefits for employees and their dependents are accounted for in the Health Insurance Management internal service fund. Retirees and their dependents are accounted for in the Retiree Healthcare agency fund.

For medical insurance benefits, the County is self-insured and contracts with Aetna to administer the program. Claims liability includes an estimated amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is based on past claim experience. The County has an excess coverage insurance policy that activates when claims reach 120% of expected claims in aggregate or individual claims in excess of \$750,000. There were no significant reductions in insurance coverage from the prior year. During the past three fiscal years, there were no claims paid that exceeded the insurance coverage.

The following is a summary of the changes in medical insurance liability for the Health Insurance Management Fund for the fiscal years 2011 and 2010:

	2011	2010
Claims liability, beginning of fiscal year	\$ 30,242,939	\$ 27,808,556
Incurred claims (including IBNRs)	176,401,516	172,303,320
Claim payments	(176,591,208)	(169,868,937)
Claims liability, end of fiscal year	\$ 30,053,247	\$ 30,242,939

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15. LANDFILL POSTCLOSURE CARE COST

Harris County operated three permitted and/or licensed landfills which were closed prior to October 1993 according to the rules and regulations at the time. All three sites have completed applicable post closure care requirements and are no longer owned by Harris County. A fourth site, a former unpermitted landfill, now known as Allison R. Peirce, Jr. Wetlands Nature Sanctuary, was part of an enforcement action by the County and acquired by the County to ensure that the site was appropriately remediated under TCEQ requirements. The County received Supplemental Environmental Project (SEP) funds as the primary funding of this project. The site has met the requirements of the Texas Commission on Environmental Quality's Texas Risk Reduction Program. A "No Further Action" letter has been issued by the Texas Risk Reduction Program of the Texas Commission on Environmental Quality for this site and plans are being made to convert this site to a park facility. A fifth site was acquired when Harris County Flood Control acquired land for a detention basin. When construction for the detention basin began several years ago, an unpermitted landfill was discovered. This landfill was capped at the time. Harris County Flood Control District is in the process of performing a site assessment in order to be able to reasonably quantify the cost for possible remediation. Currently, the Harris County Flood Control has no regulatory requirement to remediate this site. The site assessment costs for this landfill are included with the pollution remediation obligation.

16. COMMITMENTS AND CONTINGENT LIABILITIES

POLLUTION REMEDIATION

The County is subject to numerous Federal, State and local environmental laws and regulations. GASB 49 established standards for the accounting and reporting of obligations incurred to address current or potential detrimental effects of existing pollution. The County recorded in the financial statements pollution remediation liabilities of \$2,864,732. This includes \$523,356 of Flood Control District liabilities. The County primarily has ground water and air pollution remediation obligations. The liabilities were calculated based on historical expenditures and professional judgment. The liabilities are an estimate and are subject to revision because of price increases or reductions, changes in technology, changes in applicable laws or regulations, or other circumstances that could cause changes. There are a few potential pollution remediation liabilities, or portions thereof, that are not yet recognized because they are not reasonably estimable at this time. These obligations include examples, such as ground water plumes whose extent and reach of contamination is in the process of being delineated under regulatory requirements and thus corrective action has not yet been determined; obligations recently indentified and/or not yet quantifiable; and a lawsuit for cost-recovery under CERCLA where the matter is under litigation, large numbers of responsible parties have been identified, and cost have not been apportioned yet by the court. Although uncertainties associated with environmental assessment remain and certain costs are not quantifiable, management believes the current provision for such costs is adequate. There are \$153,770 in estimated recoveries reducing the liability as of February 28, 2011. These funds are from a Texas Department of Rural Affairs Grant for which there is no County matching requirement. Additional costs, if any, are not expected to have a material effect on the financial condition of the County.

LITIGATION

The County is involved in lawsuits and other claims in the ordinary course of operations. Such

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NOTES TO THE FINANCIAL STATEMENTS
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litigation includes lawsuits alleging personal injuries, discriminatory hiring and firing practices, claims from contractors for amounts under construction contracts, inverse condemnation claims, and various other liability claims. The outcome of most of these lawsuits and other claims are not presently determinable and the resolutions of these matters are not expected to have a material effect on the financial condition of the County. There are several civil cases that have resulted in settlements, consent decrees or are expected to have a financial impact on the County in subsequent fiscal years. Total liabilities of \$4,900,000 for judgments payable have been recorded in the governmental activities of the Government-Wide financial statements. An additional amount of approximately \$3.87 million is considered possible for payment in relation to other cases; accounting standards require that this amount be disclosed, but it is not recorded as a liability in the financial statements.

OTHER

The County received significant financial assistance from numerous federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, such disallowed claims, if any, will not have a material effect on any financial statements of the individual fund types included herein or on the overall financial position of the County as of February 28, 2011.

OPERATING LEASES

As of February 28, 2011, the County had several operating leases for office space. Such leases have terms from one to three years and are subject to renewal each year based upon the County's annual appropriation. As of February 28, 2011, the County's obligation for such annual rental payments, if the annual renewal option is exercised, is as follows:

<u>Governmental Activities</u>	
<u>Fiscal year</u>	<u>Office Space</u>
2012	\$ 3,564,387
2013	2,416,070
2014	1,586,778
2015	1,483,301
2016	1,371,304
2017-2027	5,825,963
	<u>\$ 16,247,803</u>

CONSTRUCTION COMMITMENTS

The County is committed under various contracts in connection with the construction of County facilities, buildings, and roads of \$132,888,465. In addition, the County has construction commitments outstanding relating to the Toll Road of approximately \$138,070,391.

17. REVENUE LEASES

OPERATING LEASES

The County is the lessor in several operating leases for certain land and office space. The land leases

HARRIS COUNTY, TEXAS
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are for various park areas and expire over the next four years. The office space is in various County owned buildings and expire over the next five to forty years. The following schedule provides an analysis of the County's investment in the property on the operating leases as of February 28, 2011:

	Carrying Value
Land	\$ 3,494,848
Buildings	793,788,440
Total Carrying Value	797,283,288
Less: Accumulated Depreciation	(177,423,470)
	\$ 619,859,818

The following is a schedule by years of minimum future rental receipts on non-cancelable operating leases as of February 28, 2011:

Fiscal year	Governmental Activities
2012	\$ 1,039,827
2013	283,527
2014	156,216
2015	155,466
2016	68,842
2017-2021	86,735
2022-2026	39,735
2027-2031	37,262
2032-2036	31,008
2037-2041	31,008
2042-2046	31,008
2047-2051	31,008
2052-2056	5,168
Total minimum future rentals	\$ 1,996,810

The total minimum future rentals amount above does not include contingent rentals which may be received under certain leases based on percentage of receipts. Contingent rentals amounted to \$842,031 in 2011.

DIRECT-FINANCING LEASES

The County leases certain County-owned property to others for use as office space. The County's net investment in direct financing leases is \$273,300. These leases are classified as direct-financing leases and expire at various intervals over the next 46 years and are not considered a significant part of the County's operating activities in terms of revenue.

18. FUND BALANCE DESIGNATIONS

The unreserved-designated fund balances include amounts which have been internally designated to be set aside and are not considered to be available for immediate appropriation. At February 28, 2011, the County's unreserved-designated fund balances in the Governmental Funds are for capital projects and maintenance. The following is a detail of capital projects by fund:

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Unreserved, designated for:	
Roads	\$ 102,603,957
Permanent Improvements	1,282,646
Flood Control	141,209,794
Total unreserved, designated for capital projects	<u>\$ 245,096,397</u>

19. RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (“GASB 54”), establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB 54 will be implemented by the County in fiscal year 2012 and the impact has not yet been determined.

GASB Statement 59, *Financial Instruments Omnibus* (“GASB 59”), updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. GASB 59 will be implemented by the County in fiscal year 2012 and the impact has not yet been determined.

GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements* (“GASB 60”), improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. GASB 60 will be implemented by the County in fiscal year 2013 and the impact has not yet been determined.

GASB Statement 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* (“GASB 61”), which modifies certain requirements for inclusion of component units in the financial reporting entity, amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances and clarifies the reporting of equity interests in legally separate organizations. GASB 61 will be implemented by the County in fiscal year 2014 and the impact has not yet been determined.

GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB 62”), which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. GASB 62 will be implemented by the County in fiscal year 2013 and the impact has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

**HARRIS COUNTY, TEXAS
GENERAL FUND**

**SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2011

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
GENERAL FUND - OPERATING				
Beginning Cash and Investments	\$ 168,638,758	\$ 168,638,758	\$ 148,766,537	\$ (19,872,221)
<u>Revenues and Transfers In:</u>				
Taxes	889,513,533	889,513,533	917,342,278	27,828,745
Intergovernmental	37,188,440	40,272,571	39,565,552	(707,019)
Charges for Services	196,163,891	196,226,138	196,047,915	(178,223)
Fines and Forfeitures	22,404,093	22,404,093	18,189,863	(4,214,230)
Rentals & Parks	4,520,380	4,520,380	4,622,894	102,514
Interest	1,635,418	1,635,418	973,999	(661,419)
Miscellaneous	41,447,428	42,591,808	51,459,188	8,867,380
Other Transfer In	6,500,000	6,500,000	10,190,038	3,690,038
Total Revenues and Transfers In	<u>1,199,373,183</u>	<u>1,203,663,941</u>	<u>1,238,391,727</u>	<u>34,727,786</u>
Total Available Resources - General Fund - Operating	<u>1,368,011,941</u>	<u>1,372,302,699</u>	<u>1,387,158,264</u>	<u>14,855,565</u>
GENERAL FUND - PUBLIC IMPROVEMENT CONTINGENCY				
Beginning Cash and Investments	34,455,946	34,455,946	34,678,817	222,871
<u>Revenues and Transfers In:</u>				
Taxes	5,668,946	5,668,946	5,014,534	(654,412)
Interest	329,222	329,222	768,276	439,054
Miscellaneous	15,000	15,000	6,636	(8,364)
Total Revenues and Transfers In	<u>6,013,168</u>	<u>6,013,168</u>	<u>5,789,446</u>	<u>(223,722)</u>
Total Available Resources - General Fund - Public Imp.	<u>40,469,114</u>	<u>40,469,114</u>	<u>40,468,263</u>	<u>(851)</u>
GENERAL FUND - MOBILITY FUND				
Beginning Cash and Investments	94,901,265	94,901,265	94,924,236	22,971
<u>Revenues and Transfers In:</u>				
Interest	916,202	916,202	984,085	67,883
Miscellaneous	-	-	14,321	14,321
Other - Transfers In	120,000,000	120,000,000	120,000,000	-
Total Revenues and Transfers In	<u>120,916,202</u>	<u>120,916,202</u>	<u>120,998,406</u>	<u>82,204</u>
Total Available Resources - General Fund - Mobility Fund	<u>215,817,467</u>	<u>215,817,467</u>	<u>215,922,642</u>	<u>105,175</u>
GENERAL FUND - DEBT SERVICE				
<u>Beginning Cash and Investments:</u>				
HC/FC Agreement 2008A CP Refunding	6,576,400	6,576,400	6,581,439	5,039
HC/FC Agreement 2008C CP Refunding	8,950,659	8,950,659	8,957,501	6,842
Permanent Improvements Refunding Series 1996	383,853	383,853	383,767	(86)
Permanent Improvements Refunding Series 1997	671,100	671,100	671,086	(14)
Commercial Paper Series B	1,432,000	1,432,000	1,430,550	(1,450)
Commercial Paper Series C	2,618,000	2,618,000	2,529,757	(88,243)
Permanent Improvements Refunding Series 2008C	13,378,000	13,378,000	13,377,557	(443)
Commercial Paper Series A1	1,017,000	1,017,000	1,014,115	(2,885)
HC/FC Agreement 2004A CP Refunding	6,146,000	6,146,000	6,149,761	3,761
Permanent Improvement Commercial Paper Series D	3,031,000	3,031,000	3,012,241	(18,759)
Flood Control Comm Paper Agreement	2,918,000	2,918,000	2,920,186	2,186
HC/FC Agreement 2006 CP Refunding	4,414,000	4,414,000	4,416,831	2,831
Certificates of Obligation Series 2001	1,869,000	1,869,000	1,820,336	(48,664)
Permanent Improvement Refunding Series 2001	878,000	878,000	842,333	(35,667)
Revenue Refunding Series 2002	62,175	62,175	62,175	-
Permanent Improvement Refunding Series 2002	15,373,000	15,373,000	15,382,394	9,394
Permanent Improvement Refunding Series 2003A	3,150,000	3,150,000	3,149,260	(740)
Permanent Improvement Refunding Series 2003 B	1,700,000	1,700,000	1,699,291	(709)
CJC Refunding Series 2004	5,440,000	5,440,000	5,439,227	(773)

See notes to required supplementary information.

**HARRIS COUNTY, TEXAS
GENERAL FUND**

**SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2011

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Tax & Subordinate Lien Refunding Series 2004A	73,000	73,000	77	(72,923)
Tax & Subordinate Lien Refunding Series 2004B	2,855,000	2,855,000	2,855,443	443
Permanent Improvement Refunding Series 2004A	6,061,000	6,061,000	6,060,200	(800)
Road Refunding Series 2009A Cost of Issuance	210,205	210,205	210,211	6
Permanent Improvement Refunding Series 2005A	6,458,000	6,458,000	6,458,244	244
Permanent Improvement Refunding Series 2006A	3,445,500	3,445,500	3,445,765	265
Permanent Improvement Refunding Series 2008A	5,870,000	5,870,000	5,869,930	(70)
Tax & Subordinate Lien Refunding Series 2009C	218,000	218,000	34	(217,966)
Tax & Subordinate Lien Refunding Series 2009C - COI	86,300	86,300	86,204	(96)
Permanent Improvement Refunding Series 2008B	8,800,000	8,800,000	8,798,034	(1,966)
Permanent Improvement Refunding Series 2009A	1,098,000	1,098,000	1,096,102	(1,898)
Permanent Improvement Refunding Series 2009B	237	237	237	-
Permanent Improvement Refunding Series 2009B - COI	239,000	239,000	238,799	(201)
Total Beginning Cash and Investments	<u>115,422,429</u>	<u>115,422,429</u>	<u>114,959,087</u>	<u>(463,342)</u>
Revenues and Transfers In:				
HC/FC Agreement 2008A CP Refunding	7,067,420	7,067,420	6,988,733	(78,687)
HC/FC Agreement 2008C CP Refunding	9,555,623	9,555,623	9,438,076	(117,547)
HC/FC Agreement 2010A CP Refunding	-	-	8,721,069	8,721,069
Permanent Improvements Refunding Series 1996	12,542	12,542	13,589	1,047
Permanent Improvements Refunding Series 1997	749,991	749,991	776,771	26,780
Commercial Paper Series B	23,919	23,919	4,879	(19,040)
Commercial Paper Series C	4,113,038	4,113,038	1,320,435	(2,792,603)
Permanent Improvements Refunding Series 2008C	14,245,839	216,500,844	203,990,315	(12,510,529)
Commercial Paper Series A1	1,631,672	1,631,672	2,661,844	1,030,172
HC/FC Agreement 2004A CP Refunding	6,882,789	6,882,789	6,718,410	(164,379)
Permanent Improvement Commercial Paper Series D	3,252,007	3,252,007	2,902,798	(349,209)
Flood Control Comm Paper Agreement	3,464,942	3,464,942	62,204	(3,402,738)
HC/FC Agreement 2006 CP Refunding	4,835,341	4,835,341	4,722,359	(112,982)
Certificates of Obligation Series 2001	147,961	147,961	250,258	102,297
Permanent Improvement Refunding Series 2001	94,419	94,419	698,182	603,763
Revenue Refunding Series 2002	622	622	34	(588)
Revenue Certificates Series 2002	8	8	-	(8)
Permanent Improvement Refunding Series 2002	15,680,365	39,246,601	32,712,422	(6,534,179)
Permanent Improvement Refunding Series 2003A	2,564,191	2,564,191	2,652,201	88,010
Permanent Improvement Refunding Series 2003B	4,474,510	19,309,848	14,968,938	(4,340,910)
CJC Refunding Series 2004	6,103,626	6,103,626	5,939,269	(164,357)
Tax & Subordinate Lien Refunding Series 2004A	1,052,262	1,052,262	1,052,182	(80)
Tax & Subordinate Lien Refunding Series 2004B	8,973,084	8,973,084	3,909,827	(5,063,257)
Permanent Improvement Refunding Series 2004A	4,455,713	37,001,707	32,366,807	(4,634,900)
Road Refunding Series 2010A Cost of Issuance	-	323,742	323,737	(5)
Road Refunding Series 2009A Cost of Issuance	2,701	2,701	9	(2,692)
Permanent Improvement Refunding Series 2005A	6,982,908	6,982,908	6,904,945	(77,963)
Permanent Improvement Refunding Series 2006A	6,248,563	32,043,140	30,560,676	(1,482,464)
Permanent Improvement Refunding Series 2008A	2,365,576	2,365,576	6,439,814	4,074,238
Tax & Subordinate Lien Refunding Series 2009C	2,704,010	2,704,010	1,357,274	(1,346,736)
Tax & Subordinate Lien Refunding Series 2009C - COI	1,025	1,025	7	(1,018)
Permanent Improvement Refunding Series 2008B	10,270,791	21,760,851	16,662,380	(5,098,471)
Permanent Improvement Refunding Series 2009A	1,224,793	1,224,793	1,142,474	(82,319)
Permanent Improvement Refunding Series 2009B	8,209,811	8,209,811	8,038,280	(171,531)
Permanent Improvement Refunding Series 2009B - COI	2,983	2,983	16	(2,967)
Permanent Improvement Refunding Series 2010A	-	211,549,061	220,746,912	9,197,851
Permanent Improvement Refunding Series 2010A - COI	-	323,917	323,917	-
Permanent Improvement Refunding Series 2010B	-	107,225,954	111,504,411	4,278,457
Permanent Improvement Refunding Series 2010B - COI	-	354,710	354,705	(5)
Total Revenues and Transfers In	<u>137,395,045</u>	<u>767,659,639</u>	<u>747,231,159</u>	<u>(20,428,480)</u>

See notes to required supplementary information.

**HARRIS COUNTY, TEXAS
GENERAL FUND**

**SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS**

For The Year Ended February 28, 2011

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Total Available Resources:				
HC/FC Agreement 2008A CP Refunding	13,643,820	13,643,820	13,570,172	(73,648)
HC/FC Agreement 2008C CP Refunding	18,506,282	18,506,282	18,395,577	(110,705)
HC/FC Agreement 2010A CP Refunding	-	-	8,721,069	8,721,069
Permanent Improvements Refunding Series 1996	396,395	396,395	397,356	961
Permanent Improvements Refunding Series 1997	1,421,091	1,421,091	1,447,857	26,766
Commercial Paper Series B	1,455,919	1,455,919	1,435,429	(20,490)
Commercial Paper Series C	6,731,038	6,731,038	3,850,192	(2,880,846)
Permanent Improvements Refunding Series 2008C	27,623,839	229,878,844	217,367,872	(12,510,972)
Commercial Paper Series A1	2,648,672	2,648,672	3,675,959	1,027,287
HC/FC Agreement 2004A CP Refunding	13,028,789	13,028,789	12,868,171	(160,618)
Permanent Improvement Commercial Paper Series D	6,283,007	6,283,007	5,915,039	(367,968)
Flood Control Comm Paper Agreement	6,382,942	6,382,942	2,982,390	(3,400,552)
HC/FC Agreement 2006 CP Refunding	9,249,341	9,249,341	9,139,190	(110,151)
Certificates of Obligation Series 2001	2,016,961	2,016,961	2,070,594	53,633
Permanent Improvement Refunding Series 2001	972,419	972,419	1,540,515	568,096
Revenue Refunding Series 2002	62,797	62,797	62,209	(588)
Revenue Certificates Series 2002	8	8	-	(8)
Permanent Improvement Refunding Series 2002	31,053,365	54,619,601	48,094,816	(6,524,785)
Permanent Improvement Refunding Series 2003A	5,714,191	5,714,191	5,801,461	87,270
Permanent Improvement Refunding Series 2003 B	6,174,510	21,009,848	16,668,229	(4,341,619)
CJC Refunding Series 2004	11,543,626	11,543,626	11,378,496	(165,130)
Tax & Subordinate Lien Refunding Series 2004A	1,125,262	1,125,262	1,052,259	(73,003)
Tax & Subordinate Lien Refunding Series 2004B	11,828,084	11,828,084	6,765,270	(5,062,814)
Permanent Improvement Refunding Series 2004A	10,516,713	43,062,707	38,427,007	(4,635,700)
Road Refunding Series 2010A Cost of Issuance	-	323,742	323,737	(5)
Road Refunding Series 2009A Cost of Issuance	212,906	212,906	210,220	(2,686)
Permanent Improvement Refunding Series 2005A	13,440,908	13,440,908	13,363,189	(77,719)
Permanent Improvement Refunding Series 2006A	9,694,063	35,488,640	34,006,441	(1,482,199)
Permanent Improvement Refunding Series 2008A	8,235,576	8,235,576	12,309,744	4,074,168
Tax & Subordinate Lien Refunding Series 2009C	2,922,010	2,922,010	1,357,308	(1,564,702)
Tax & Subordinate Lien Refunding Series 2009C - COI	87,325	87,325	86,211	(1,114)
Permanent Improvement Refunding Series 2008B	19,070,791	30,560,851	25,460,414	(5,100,437)
Permanent Improvement Refunding Series 2009A	2,322,793	2,322,793	2,238,576	(84,217)
Permanent Improvement Refunding Series 2009B	8,210,048	8,210,048	8,038,517	(171,531)
Permanent Improvement Refunding Series 2009B - COI	241,983	241,983	238,815	(3,168)
Permanent Improvement Refunding Series 2010A	-	211,549,061	220,746,912	9,197,851
Permanent Improvement Refunding Series 2010A - COI	-	323,917	323,917	-
Permanent Improvement Refunding Series 2010B	-	107,225,954	111,504,411	4,278,457
Permanent Improvement Refunding Series 2010B - COI	-	354,710	354,705	(5)
Total Available Resources - General Fund - Debt Service	<u>252,817,474</u>	<u>883,082,068</u>	<u>862,190,246</u>	<u>(20,891,822)</u>

TOTAL GENERAL FUND

Beginning Cash and Investments	413,418,398	413,418,398	393,328,677	(20,089,721)
Revenues and Transfers In	1,463,697,598	2,098,252,950	2,112,410,738	14,157,788
TOTAL GENERAL FUND	<u>\$ 1,877,115,996</u>	<u>\$ 2,511,671,348</u>	<u>\$ 2,505,739,415</u>	<u>\$ (5,931,933)</u>

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2011

	Adopted Budget	Adjusted Budget	Actual	(Over) Under
GENERAL FUND DEPARTMENTS				
Public Infrastructure	\$ 4,117,731	\$ 2,987,033	\$ 2,906,000	\$ 81,033
Right of Way	2,204,495	1,995,635	1,984,387	11,248
Construction Programs Division	7,122,810	6,543,080	6,514,415	28,665
Appraisal District	6,642,325	9,143,186	9,143,186	-
County Judge	4,915,721	4,854,721	4,554,624	300,097
Commissioner Precinct 1	73,128,649	28,120,698	23,932,558	4,188,140
Commissioner Precinct 2	42,112,156	37,761,874	31,321,533	6,440,341
Commissioner Precinct 3	47,676,048	35,776,971	29,474,443	6,302,528
Commissioner Precinct 4	60,547,577	41,916,559	38,698,402	3,218,157
Tunnel and Ferries Operation	4,892,683	4,737,374	4,239,810	497,564
Management Services	13,738,247	43,778,552	43,404,156	374,396
Legislative Services	1,022,882	1,406,037	1,391,422	14,615
Public Infrastructure - Architecture & Engineering	28,169,540	27,738,848	27,644,266	94,582
Fire Marshal's Office	6,386,777	6,461,984	6,427,960	34,024
Medical Examiner	20,142,388	19,392,745	19,306,128	86,617
Public Health Services	28,011,067	28,012,172	27,029,446	982,726
Public Library	25,286,914	24,122,204	24,114,463	7,741
Domestic Relations	2,765,969	2,623,051	2,575,034	48,017
Community Services	9,734,019	9,468,969	9,213,288	255,681
Information Technology Center	35,000,466	33,548,076	33,486,425	61,651
MHMRA	22,468,907	22,304,770	22,304,752	18
Facilities and Property Management	59,564,266	56,973,608	55,804,130	1,169,478
Constable Precinct 1	23,800,790	26,027,377	25,980,425	46,952
Constable Precinct 2	6,040,217	6,151,934	6,120,895	31,039
Constable Precinct 3	10,590,070	10,565,010	10,536,818	28,192
Constable Precinct 4	30,800,146	35,288,662	35,229,356	59,306
Constable Precinct 5	28,500,337	31,310,844	31,293,729	17,115
Constable Precinct 6	7,200,772	7,158,282	7,135,391	22,891
Constable Precinct 7	7,700,082	8,374,228	8,357,745	16,483
Constable Precinct 8	6,175,279	6,475,954	6,471,105	4,849
Justice of the Peace 1-1	1,548,750	1,573,210	1,567,606	5,604
Justice of the Peace 1-2	2,220,098	2,156,603	2,151,448	5,155
Justice of the Peace 2-1	825,293	877,428	877,121	307
Justice of the Peace 2-2	830,013	838,448	838,332	116
Justice of the Peace 3-1	1,562,482	1,544,432	1,539,810	4,622
Justice of the Peace 3-2	1,101,466	1,093,676	1,088,892	4,784
Justice of the Peace 4-1	2,514,991	2,334,602	2,307,853	26,749
Justice of the Peace 4-2	1,269,956	1,263,021	1,262,324	697
Justice of the Peace 5-1	1,741,319	1,752,199	1,743,838	8,361
Justice of the Peace 5-2	2,419,625	2,382,860	2,357,778	25,082
Justice of the Peace 6-1	558,590	560,090	556,739	3,351
Justice of the Peace 6-2	623,432	631,882	627,070	4,812
Justice of the Peace 7-1	658,668	680,343	680,341	2
Justice of the Peace 7-2	841,448	863,598	861,828	1,770
Justice of the Peace 8-1	1,003,950	1,024,930	1,024,478	452

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2011

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>(Over) Under</u>
Justice of the Peace 8-2	1,010,864	919,824	919,672	152
County Attorney	18,070,360	21,548,475	21,040,901	507,574
County Clerk	24,360,033	24,320,499	24,319,351	1,148
County Treasurer	1,136,214	1,087,774	1,065,661	22,113
Tax Assessor-Collector	25,224,754	24,758,249	24,713,021	45,228
County Sheriff	376,002,360	413,110,182	412,968,656	141,526
District Attorney	56,600,035	58,488,302	58,449,457	38,845
District Clerk	27,725,061	27,617,663	27,329,961	287,702
Community Supervision and Correction	766,022	774,555	774,554	1
Pretrial Services	7,368,671	7,047,431	7,028,609	18,822
County Auditor	14,066,681	14,066,681	13,285,741	780,940
Purchasing Agent	6,952,335	6,564,415	6,523,746	40,669
District Courts	43,328,697	53,653,263	53,653,174	89
Texas Agrilife Extension Services	825,046	807,084	804,084	3,000
Juvenile Probation	71,254,682	67,653,617	67,091,769	561,848
Sheriff's Civil Service	220,082	185,187	184,425	762
Protective Services- Children and Adults	21,555,038	21,707,326	21,622,600	84,726
Children's Assessment Center	5,082,627	4,764,586	4,652,069	112,517
1st Court of Appeals	77,405	102,679	102,572	107
14th Court of Appeals	77,405	95,360	92,101	3,259
County Courts	14,573,880	16,173,498	16,161,535	11,963
Probate Court 1	1,051,354	1,155,725	1,155,722	3
Probate Court 2	1,051,354	1,246,569	1,246,566	3
Probate Court 3	2,400,216	2,767,829	2,767,826	3
Probate Court 4	1,051,354	1,052,077	1,052,074	3
Bail Bond Board - Cost Center	-	750	750	-
Total General Fund By Department	<u>1,368,011,941</u>	<u>1,372,267,360</u>	<u>1,345,088,347</u>	<u>27,179,013</u>
1020 Public Improvement Contingency	40,469,114	40,502,794	4,058,601	36,444,193
1070 Mobility Fund	215,817,467	215,817,467	46,982,628	168,834,839

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2011

	Adopted Budget	Adjusted Budget	Actual	(Over) Under
GENERAL FUND DEBT SERVICE				
1050 HC/FC Agreement 2008A CP Refunding	13,643,820	13,643,820	6,992,000	6,651,820
1080 HC/FC Agreement 2008C CP Refunding	18,506,282	18,506,282	9,481,000	9,025,282
1250 Permanent Improvement Refunding Series 1996	396,395	396,395	-	396,395
1260 Permanent Improvement Refunding Series 1997	1,421,091	1,421,091	740,025	681,066
1390 Commercial Paper Series B	1,455,919	1,455,919	180,223	1,275,696
1400 Commercial Paper Series C	6,731,038	6,731,038	1,771,112	4,959,926
1410 Permanent Improvement Refunding Series 2008C	27,623,839	229,878,844	212,705,389	17,173,455
1420 Commercial Paper Series A-1	2,648,672	2,648,672	469,544	2,179,128
1440 HC/FC Agreement 2004A CP Refunding	13,028,789	13,028,789	6,530,000	6,498,789
1470 Commercial Paper Series - Flood Control	6,283,007	6,283,007	1,009,007	5,274,000
1480 Flood Control CP Agreement	6,382,942	6,382,942	1,002,187	5,380,755
1490 HC/FC Agreement 2006 CP Refunding	9,249,341	9,249,341	4,710,000	4,539,341
1530 Certificate of Obligation, Series 2001	2,016,961	2,016,961	1,018,375	998,586
1550 Permanent Improvement Refunding Series 2001	972,419	972,419	843,295	129,124
1600 Revenue Refunding Series 2002	62,797	62,797	-	62,797
1610 Revenue Certificates Series 2002	8	8	-	8
1620 Permanent Improvement Refunding Series 2002	31,053,365	54,619,600	39,431,748	15,187,852
1650 Permanent Improvement Refunding Series 2003A	5,714,191	5,714,191	3,382,000	2,332,191
1680 Permanent Improvement Refunding Series 2003B	6,174,510	21,009,848	15,998,613	5,011,235
1730 CJC Refunding Series 2004B	11,543,626	11,543,626	5,849,363	5,694,263
1750 Tax & Sub Lien Refunding 2004A	1,125,262	1,125,262	1,052,250	73,012
1770 Tax & Sub Lien Refunding 2004B	11,828,084	11,828,084	6,765,173	5,062,911
1780 Permanent Improvement Refunding Series 2004A	10,516,713	43,062,707	35,524,492	7,538,215
17A0 HC Road Ref 2010A Cost of Issuance	-	323,742	323,737	5
17B0 HC Road Ref 2009A Cost of Issuance	212,906	212,906	210,220	2,686
1800 PIB Refunding Bonds 2005A Debt Service	13,440,908	13,440,908	6,877,750	6,563,158
1850 PIB Refunding Bonds 2006A - Debt Service	9,694,063	35,488,641	29,133,834	6,354,807
1870 PIB Refunding Bonds 2008A - Debt Service	8,235,576	8,235,576	6,319,000	1,916,576
18A0 HC Tax/Sub 2009C Debt Service	2,922,010	2,922,010	1,351,563	1,570,447
18B0 HC Tax/Sub 2009C Cost of Issuance	87,325	87,325	86,210	1,115
1910 PIB Refunding Bonds 2008B - Debt Service	19,070,791	30,560,851	20,860,810	9,700,041
1960 HC PIB Refunding Bonds 2009A Debt Service	2,322,793	2,322,793	1,155,150	1,167,643
19A0 HC PIB 2009B Debt Service	8,210,048	8,210,048	3,604,364	4,605,684
19B0 HC PIB Refunding 2009B Cost of Issuance	241,983	241,983	238,815	3,168
19C0 HC PIB Refunding 2010A Debt Service	-	211,549,062	211,548,910	152
19D0 HC PIB Refunding 2010A Cost of Issuance	-	323,917	323,917	-
19E0 HC PIB Refunding 2010B Debt Service	-	107,225,955	107,225,953	2
19F0 HC PIB Refunding 2010B Cost of Issuance	-	354,709	354,704	5
Total General Fund Debt Service	<u>252,817,474</u>	<u>883,082,069</u>	<u>745,070,733</u>	<u>138,011,336</u>
Total General Fund	<u>\$ 1,877,115,996</u>	<u>\$ 2,511,669,690</u>	<u>\$ 2,141,200,309</u>	<u>\$ 370,469,381</u>

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
February 28, 2011

1. 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 SOURCES	
Cash (budgetary) basis	\$ 2,505,739,415
Beginning Cash and Investments	(393,328,677)
Accrued in 2010, received in 2011	(54,576,386)
Entry to eliminate transfers between funds	(320,815,652)
Accrued in 2011, to be received in 2012	40,045,495
Revenues and other sources on modified accrual (GAAP) basis	1,777,064,195
 EXPENDITURES AND OTHER USES	
Cash (budgetary) basis	2,141,200,309
Incurred during 2010, paid in 2011	(102,757,480)
Entry to eliminate transfers between funds	(320,815,652)
Incurred during 2011, payable in 2012	83,314,268
Expenditures and other uses on modified accrual (GAAP) basis	1,800,941,445
Changes in Fund Balances	\$ (23,877,250)

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

2. ANALYSIS OF SIGNIFICANT EXPENDITURE VARIANCES

In four departments, the Public Improvement Contingency Fund, the Mobility Fund and one general fund debt service account, there were significant variances between the budgeted amount and actual expenditures.

The four departments with significant variances are all Commissioner Precincts, which have a combined positive variance of \$20,149,166. The precinct budgets include capital projects for roads and bridges. These budgets are set at the beginning of the projects and roll year-to-year. Therefore, these variances are anticipated.

The Public Improvement Contingency Fund has a positive variance of \$36,444,193. These funds are set aside by Commissioners Court to assist with capital projects and for use in unforeseen emergency events.

The Mobility Fund has a positive variance of \$168,834,839. These funds are set aside to increase general mobility within the County.

The Permanent Improvement Refunding Series 2002 has a positive variance of \$15,187,852 and the Permanent Improvement Refunding Series 2008C has a positive variance of \$17,173,455. The County's practice is to have a full year's worth of payments available for tax supported debt. As the tax year and budget year are not the same, there will always be a variance between the budget and actual expenditures. In these cases, the debt payment amounts are high enough to cause a significant variance, and will continue to cause significant variances in the future.

**HARRIS COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
February 28, 2011**

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
2009	3/1/2007	\$ -	\$ 852,350,950	\$ 852,350,950	0%	\$ 760,995,816	112.0%
2010	3/1/2009	-	859,681,747	859,681,747	0%	766,400,980	112.2%
2011	3/1/2009	-	859,681,747	859,681,747	0%	722,468,180	119.0%

The above table includes information for the 5 participating employers to the agent multiple-employer defined benefit post employment healthcare plan that the County administers. Two of the employers, Emergency 911 and Community Supervision are not considered departments or component units of the County; the UAAL for these entities are \$915,483 and \$16,210,643 respectively.

**HARRIS COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
February 28, 2011**

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10
Actuarial Value of Assets	\$2,355,663,641	\$2,619,204,575	\$2,739,687,861
Actuarial Accrued Liability (AAL)	\$2,724,786,646	\$2,978,320,920	\$3,123,164,193
Unfunded Actuarial Accrued Liability (UAAL)	\$ 369,123,005	\$ 359,116,345	\$ 383,476,332
Funded Ratio	86.45%	87.94%	87.72%
Annual Covered Payroll (Actuarial)	\$ 839,919,068	\$ 882,729,740	\$ 849,143,883
UAAL as Percentage of Covered Payroll	43.95%	40.68%	45.16%

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APPENDIX B

FORM OF NOTE COUNSEL'S OPINION

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_____, 2012

WE HAVE ACTED AS NOTE COUNSEL for Harris County, Texas, a political subdivision of the State of Texas (the “County”), solely for the purpose of rendering an opinion with respect to the legality and validity of the \$_____ principal amount of “Harris County, Texas, Tax Anticipation Notes, Series 2012” (the “Notes”) under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Notes from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data, or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the County or the disclosure thereof in connection with the sale of the Notes. Our role in connection with the County’s Official Statement (the “Official Statement”) prepared for use in connection with the sale of the Notes has been limited as described therein.

IN OUR CAPACITY AS NOTE COUNSEL, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Notes, which contains certified copies of certain proceedings of the Commissioners Court of Harris County, Texas, pertaining to the issuance of the Notes, including the Order of the Commissioners Court authorizing the issuance of the Notes (the “Order”); customary certificates of officers, agents, and representatives of the County and other public officials; the opinion of the County Attorney; and other certified showings relating to the authorization and issuance of the Notes. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant. Certain defined terms used herein are defined in the Code.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the transcript of certified proceedings evidences legal authority for the issuance of the Notes in compliance with the Constitution and laws of the State of Texas and that, therefore, the Notes are valid and binding obligations of the County and are payable both as to principal and interest payable from a lien on of certain “Pledged Revenues,” as defined in the Order, which include certain general fund ad valorem tax revenues of the County, which Pledged Revenues have been irrevocably pledged to pay the principal of and interest on the Notes.

THE RIGHTS OF THE OWNERS of the Notes are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally.

WE EXPRESS NO OPINION and make no comment with respect to the sufficiency of the security for or the marketability of the Notes.

BASED ON THE FOREGOING, IT IS OUR OPINION that, under existing law, interest on the Notes is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations; however, interest on the Notes is taken into account in determining “adjusted current earnings” for purposes of computing the alternative minimum tax imposed on certain corporations.

IN RENDERING THESE OPINIONS, we have relied on representations and certifications of the County with respect to matters solely within the knowledge of the County, which we have not independently verified, and we assume continuing compliance by the County with covenants pertaining to those sections of the Code affecting the exclusion from gross income of interest on the Notes for federal income tax purposes. If the County should fail to comply with its covenants, or if such representations and certifications are determined to be inaccurate or incomplete, interest on the Notes could become includable in gross income retroactively to the date of issuance of the Notes, regardless of the date on which the event causing such inclusion occurs.

EXCEPT AS STATED ABOVE, we express no opinion regarding any federal, state, or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the Notes.

WE CALL YOUR ATTENTION TO THE FACT THAT the ownership of obligations such as the Notes may result in collateral federal tax consequences including (1) the denial of a deduction of interest on indebtedness incurred or continued to purchase or carry Notes or, in the case of a financial institution, that portion of the owner’s interest expense allocable of interest on Notes, (2) the reduction of the loss reserve deduction for property and casualty insurance companies by 15% of certain items, including interest on the Notes, (3) the inclusion of interest on Notes in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (4) the inclusion of interest on Notes in the passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year, and (5) the inclusion in gross income of interest on the Notes by recipients of certain Social Security and Railroad Retirement Benefits. Prospective purchasers of the Notes should consult their own tax advisors as to any collateral federal tax consequences. We express no opinion with respect to any such collateral tax consequences.

THE OPINIONS SET FORTH ABOVE are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the “Service”); rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.

THIS LEGAL OPINION expresses the professional judgment of this firm regarding the legal issues explicitly addressed therein. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

GREENBERG TRAURIG, LLP

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APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The Notes will be available only in book-entry form. Consequently, purchasers of ownership interests in the Notes will not receive certificates representing their respective interests in the Notes. This section describes how ownership of the Notes is to be transferred and how the payments of principal of and interest on the Notes are to be paid to and accredited by Depository Trust Company, New York, New York, (“DTC”) while the Notes are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Underwriters and the County believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The County cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Notes, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Notes), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission (“SEC”), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each issue of the Notes, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of

ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the financing documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Notes within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such a maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the applicable Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from applicable Issuer or Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the applicable Issuer or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the County or the Bond Trustee as set forth in the Order. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

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COMMISSIONERS COURT OF HARRIS COUNTY

County Judge	Ed Emmett
Commissioner, Precinct 1	El Franco Lee
Commissioner, Precinct 2	Jack Morman
Commissioner, Precinct 3	Steve Radack
Commissioner, Precinct 4	R. Jack Cagle

CERTAIN OTHER ELECTED OFFICIALS

County Assessor and Collector of Taxes	Don Summers
County Attorney	Vince Ryan
County Clerk	Stan Stanart
County Treasurer	Orlando Sanchez
District Clerk	Chris Daniel

CERTAIN APPOINTED OFFICIALS AND EMPLOYEES

County Budget Officer	William J. Jackson
County Auditor	Barbara J. Schott, CPA
Director of Financial Management	Mike Austin