

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

Financial Statements as of February 28,
1987 and for the Fourteen Months then
Ended and Cumulative for the Period
Since Date of Inception (September 13,
1983) and Auditors' Opinion

AUDITORS' OPINION

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

We have examined the balance sheet of the Toll Road Enterprise Fund of Harris County, Texas as of February 28, 1987 and the related statements of operations and of changes in financial position for the fourteen months then ended and cumulative for the period since date of inception (September 13, 1983). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1, the financial statements present only the Toll Road Enterprise Fund and are not intended to present fairly the financial position and results of operations of Harris County, Texas in conformity with generally accepted accounting principles.

In our opinion, the accompanying financial statements present fairly the financial position of the Toll Road Enterprise Fund of Harris County, Texas at February 28, 1987 and the results of its operations and the changes in its financial position for the fourteen months then ended and cumulative for the period since date of inception (September 13, 1983), in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

July 2, 1987

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

BALANCE SHEET, FEBRUARY 28, 1987

<u>ASSETS</u>	<u>NOTES</u>	
CURRENT UNRESTRICTED ASSETS:		
Cash		\$ 15,342
Due from other funds		218,179
Travel advances		600
Total current unrestricted assets		<u>234,121</u>
CURRENT RESTRICTED ASSETS:		
Equity in pooled cash and investments	3	
Accrued interest receivable	2	366,903,329
Total current restricted assets		<u>4,524,931</u> <u>371,428,260</u>
RESTRICTED PLEDGED ACCOUNT FOR MULTI MODE		
BONDS - Primarily investments	2,4	<u>420,307,435</u>
PROPERTY:		
Construction work in progress	4	
Rights-of-way		300,866,373
Land		74,906,155
Building		366,091
Equipment		1,233,909
Total		70,442
Less accumulated depreciation		<u>377,442,970</u>
Property - net		14,076
		<u>377,428,894</u>
DEFERRED CHARGES		
		10,055,648
TOTAL		<u>\$1,179,454,358</u>

See notes to financial statements.

LIABILITIES AND FUND EQUITY (DEFICIT)NOTES

CURRENT LIABILITIES - Payable from unrestricted assets:

Vouchers payable		\$	3,188
Rental security deposits			4,291
Total current liabilities - payable from unrestricted assets			<u>7,479</u>

CURRENT LIABILITIES - Payable from restricted assets:

Current portion of bonds payable	4		50,000,000
Accrued interest payable			12,964,469
Vouchers payable			11,411,847
Retainages payable			8,161,153
Other			57,690
Total current liabilities - payable from restricted assets			<u>82,595,159</u>

NON-CURRENT LIABILITIES:

BONDS PAYABLE	4		1,103,924,489
OTHER			7,387
Total non-current liabilities			<u>1,103,931,876</u>
Total liabilities			<u>1,186,534,514</u>

FUND EQUITY (DEFICIT):

Contributed capital			19,398,244
Deficit accumulated during the development stage			(26,478,400)
Total fund equity (deficit)			<u>(7,080,156)</u>

TOTAL			<u>\$1,179,454,358</u>
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HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

STATEMENTS OF OPERATIONS
FOR THE FOURTEEN MONTHS ENDED FEBRUARY 28, 1987 AND
CUMULATIVE FOR THE PERIOD SINCE DATE OF
INCEPTION (September 13, 1983)

	<u>NOTE</u>	<u>1987</u>	<u>CUMULATIVE</u>
REVENUES:			
Lease of building		\$ 14,661	\$ 14,661
Gain on sale of investments		44,171	44,171
Total revenues		<u>58,832</u>	<u>58,832</u>
ADMINISTRATIVE EXPENSES -			
Primarily salaries		<u>2,602,668</u>	<u>5,488,409</u>
LOSS BEFORE EXTRAORDINARY ITEM		(2,543,836)	(5,429,577)
EXTRAORDINARY ITEM - COST ASSOCIATED WITH FUTURE INTEREST SAVINGS	4	<u> </u>	<u>(21,048,823)</u>
NET LOSS		(2,543,836)	(26,478,400)
DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE, BEGINNING OF PERIOD		<u>(23,934,564)</u>	<u> </u>
DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE, END OF PERIOD		<u>\$(26,478,400)</u>	<u>\$(26,478,400)</u>

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE FOURTEEN MONTHS ENDED FEBRUARY 28, 1987 AND
CUMULATIVE FOR THE PERIOD SINCE DATE OF
INCEPTION (September 13, 1983)

	<u>1987</u>	<u>CUMULATIVE</u>
SOURCES OF CASH AND INVESTMENTS:		
Operations:		
Loss before extraordinary item	\$ (2,543,836)	\$ (5,429,577)
Add non-cash item - depreciation	14,076	14,076
Used by operations	<u>(2,529,760)</u>	<u>(5,415,501)</u>
Extraordinary item - cost associated with future interest savings		(21,048,823)
From bond sales:		
Proceeds from bond sales	97,160,000	1,437,814,599
Bond refunding and remarketing	(97,160,000)	(283,390,000)
Decrease (increase) in multi-mode pledged account	122,814,921	(420,307,435)
Contributed capital	5,693,903	19,398,244
Increase (decrease) in:		
Interest receivable	3,253,449	(4,524,931)
Deferred charges	2,098,055	(10,055,648)
Interest and vouchers payable	903,053	32,610,025
Bond premiums	(269,290)	(500,110)
Total sources	<u>131,964,331</u>	<u>744,580,420</u>
USES OF CASH AND INVESTMENTS:		
Additions to:		
Construction work in progress	208,358,094	300,866,373
Rights-of-way	21,575,812	74,906,155
Building	1,233,909	1,233,909
Land	366,091	366,091
Equipment	13,977	70,442
Travel advances receivable	600	600
Due from other funds	218,179	218,179
Total uses	<u>231,766,662</u>	<u>377,661,749</u>
INCREASE (DECREASE) IN CASH AND INVESTMENTS	(99,802,331)	366,918,671
CASH AND INVESTMENTS, BEGINNING OF PERIOD	<u>466,721,002</u>	
CASH AND INVESTMENTS, END OF PERIOD	<u>\$366,918,671</u>	<u>\$ 366,918,671</u>

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTHS ENDED FEBRUARY 28, 1987 AND
CUMULATIVE FOR THE PERIOD SINCE DATE OF
INCEPTION (September 13, 1983)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Toll Road Enterprise Fund ("Toll Road") was created by Harris County, Texas ("County") on September 13, 1983 to account for the acquisition, construction, improvement, operation and maintenance of the County toll road facilities and services. Construction began in 1984 and the first section of the toll road is expected to begin operations in September 1987.

Basis of Accounting - The Toll Road uses the accrual basis of accounting.

Property constructed or acquired by purchase is stated at cost. Donated property is stated at estimated fair value on the date donated and is recorded as contributed capital.

The Toll Road capitalizes, as a cost of its constructed property, the interest expense of bonds issued for construction purposes less the interest earned on the temporary investment of the proceeds of those bonds from the date of the borrowing until the date the property is ready for use. This amounted to \$29,322,454 for the fourteen months ended February 28, 1987 and \$28,452,359 since inception.

No depreciation has been provided on property under construction. The building and equipment are depreciated using the straight-line method with estimated useful lives of 30 years and 10 years, respectively. Equipment purchased during the year receives one-half year's depreciation in the year of acquisition.

Deferred Charges consist of bond issuance costs that are amortized on a straight-line basis over the remaining term of the bonds.

Bond Premiums are amortized on a straight-line basis over the remaining term of the bonds.

Vacation Pay and Sick Leave - Employees are paid by a prescribed formula for absence due to vacation or sickness. The eligibility for sick leave benefit lapses at year-end; accordingly, the Toll Road had no liability for sick leave benefits at February 28, 1987. The Toll Road had a liability for vacation pay of \$28,601 at February 28, 1987.

2. CASH AND INVESTMENTS

The Toll Road's demand and time deposits at February 28, 1987 were covered by federal depository insurance or by pledged collateral held at the Federal Reserve Bank in the Toll Road's name. Such total collateralization and insurance coverage is required by state of Texas statutes.

State statutes authorize the County to invest in fully collateralized or insured time deposits, direct debt securities of the United States, and fully collateralized repurchase agreements. The repurchase agreements must be purchased pursuant to a master repurchase agreement which specifies the rights and obligation of both parties and which requires that the securities involved in the transaction be held in a safekeeping account subject to the control and custody of the County. Investments in security repurchase agreements may be made only with the state or national banks domiciled in the State of Texas with which the County has signed master repurchase agreements.

The Toll Road's investments at February 28, 1987 are shown below. The carrying amount is the cost at date of purchase and approximates market. These investments consist of U.S. Government securities held at the Federal Reserve Bank through the County's depository bank agents' or trust agent's custodial accounts. In some cases the depository bank agents and the trust agent are also the counterparty. The Toll Road did not invest in any repurchase agreements during the fourteen-month period.

	<u>Carrying Value</u>	<u>Market Value</u>
Included in restricted assets:		
Held by depository bank agents' safekeeping department in the Toll Road's name	\$493,505,560	\$536,920,774
Held by counterparty's trust department in the Toll Road's name	178,390,743	182,256,093
Held by counterparty's safekeeping department in the Toll Road's name	<u>40,728,125</u>	<u>40,300,000</u>
Total investments in U.S. Government securities	<u>\$712,624,428</u>	<u>\$759,476,867</u>

The carrying amount at date of purchase does not reflect amortization of premiums or discounts.

3. RESTRICTED ASSETS

The bond restrictions require that, during the period in which the bonds are outstanding, the Toll Road must create and maintain certain accounts to receive the proceeds from the sale of the bonds, the property taxes levied (if any), and the gross revenues

derived from the operation of the toll roads. These assets can be used only in accordance with the terms of the bond resolutions to pay the capital costs of constructing a system of toll roads, or to pay the debt service for the related bonds.

4. BONDS PAYABLE

Bonds payable consist of the following:

Unlimited tax and subordinate lien variable-rate demand revenue bonds, Series 1983, interest at 1/8 of 1% above TENR* payable quarterly, adjustable and subject to a maximum; redeemed June 1987	\$ 50,000,000
Unlimited tax and subordinate lien revenue bonds:	
Series 1984 (a portion refunded in 1985)	13,770,000
Series 1985	100,000,000
Unlimited tax and subordinated lien revenue adjustable/fixed rate bonds, Series 1985 A-E, interest at 1/8 of 1% above TENR* payable quarterly, adjustable and subject to a maximum; optional redemption allowable, mandatory redemption 1994-2014, matures 2015	250,000,000
Unlimited tax and subordinate lien revenue refunding bonds, Series 1985-F	186,230,000
Multiple mode senior lien revenue bonds, Series 1985 B-G, interest at 6.3% - 7.2% payable semiannually; initial mandatory purchase dates 1987-1990	450,340,000
Multiple mode senior lien revenue bonds, Series 1985-A, interest at 7.30% - 7.40% payable semiannually; optional redemption allowable, mandatory redemption 1996-2002	97,160,000
Total principal	<u>1,147,500,000</u>
Unamortized premium on Series 1985-F bonds	6,424,489
Total	<u>1,153,924,489</u>
Less current portion	<u>50,000,000</u>
Bonds payable - long-term	<u>\$1,103,924,489</u>

* An interest rate determined weekly by Bankers Trust Company and based upon current yields on short-term tax-exempt obligations.

Terms of the Series 1984, 1985, and 1985-F bonds are as follows:

	<u>Series 1984</u>	<u>Series 1985</u>	<u>Series 1985-F</u>
Compound interest bonds	\$13,770,000	\$ 14,305,000	\$ 9,370,000
Current interest rate bonds	<u> </u>	<u>85,695,000</u>	<u>176,860,000</u>
Balance, February 28, 1987	<u>\$13,770,000</u>	<u>\$100,000,000</u>	<u>\$186,230,000</u>
Compound interest bonds, interest payable upon maturity:			
Interest rates	9.25% - 10.25%	8.75% - 10%	8% - 9.2%
Maturity dates	1994-2000	1994-2004	1992-2003
Current interest rate bonds, interest payable semiannually:			
Interest rates		9.625%-9.875%	7.25%-9.25%
Maturity dates		2005-2015	1991-2014
Early redemption begins		1995 or interest dates thereafter	1995 or interest dates thereafter

The proceeds of the Multiple Mode Bonds, Series A-G ("Multi Mode Bonds") were deposited in a Pledged Account with the trustee and invested in U.S. Government securities or retained as cash. The Pledged Account will be sufficient to pay the purchase price of and interest on Multi Mode Bonds in the initial mode as they become due. The Multi Mode Bonds are secured by and payable from the Pledged Account while in the initial mode and at all times are further secured by a pledge of and lien on any and all property of every kind and nature which may be assigned or pledged or deposited with the trustee.

On the initial mandatory purchase dates (beginning February 15, 1987 and each six-month interval until February 15, 1990) the Multi Mode Bonds will be purchased from the owners and will be automatically converted to the fixed mode unless the County elects to convert to other modes or to extend the initial mandatory purchase date, subject to the rights of the owners to otherwise elect to retain their bonds. In February 1987 the initial mode of the Series A Bonds was remarketed in the fixed mode. In the event that the Multi Mode Bonds are automatically converted to

the fixed mode, they will mature from 1996 to 2018. The Multi Mode Bonds in the initial mode are subject to optional redemption by the County on August 15, 1988, on such date and on any interest payment date thereafter, prior to the initial mandatory purchase date. The Multi Mode Bonds are subject to mandatory redemption at the option of the County at a premium of 1/4 of 1% for each six-month period from such date until the scheduled initial mandatory purchase date.

The Series 1985A-E Bonds initially bear interest at TENR to be determined weekly, plus 1/8 of 1%. At the option of the County, this initial rate on any series of bonds may be converted to a rate of interest determined daily or for terms of one year, three years or until maturity.

The Series 1985A-E Bonds are subject to purchase on the demand of the holder, at any time prior to the conversion from TENR described above, at a price equal to principal plus accrued interest. The County's remarketing agent is authorized to use its best efforts to sell the bonds at a price equal to par. If the remarketing agent has not remarketed such bonds by the seventh day, the remarketing agent has the option of selling the bonds to a bank with which the County has a stand-by agreement to purchase such bonds.

The terms of the stand-by agreement require the County to redeem the purchased bonds upon the expiration or termination (by events of default) of the stand-by agreement. The scheduled expiration date of the stand-by agreement is June 1, 1995 with possible extensions of five years beginning June 1, 1990. The fee for the stand-by agreement included an initial payment of \$156,250 with an additional commission of .15% per annum paid quarterly on the outstanding principal balance. The following is the Debt Service Requirements of the Series 1985A-E Bonds assuming the expiration of the stand-by agreement, the ceiling interest rate of 15%, and that the stand-by bank has purchased all of the demand bonds as of March 1, 1987:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1988		\$ 37,500,000	\$ 37,500,000
1989		37,500,000	37,500,000
1990		37,500,000	37,500,000
1991		37,500,000	37,500,000
1992		37,500,000	37,500,000
1993		37,500,000	37,500,000
1994		37,500,000	37,500,000
1995	<u>\$250,000,000</u>	<u>9,375,000</u>	<u>259,375,000</u>
	<u>\$250,000,000</u>	<u>\$271,875,000</u>	<u>\$521,875,000</u>

Upon termination of the stand-by agreement for events of default other than the failure of the County to make payments on the bonds or any other County bonds payable from ad valorem taxes or due to bankruptcy proceedings, the County is required to redeem the purchased bonds by the earlier of five years after such termination or the period from the effective date of such termination to the scheduled expiration date. The redemption of the bonds is to be made through consecutive semiannual instalments of principal and interest based on the purchased bond rate. To date, the County has never defaulted on any of its bonded debt obligations.

In 1985 the County placed \$50,000,000 of the proceeds from the sale of the Series 1985A-E Bonds together with other available funds in an irrevocable escrow with a trustee to provide for all debt service on the Series 1983 Bonds. This transaction was not recognized as a refunding for financial accounting purposes because the bonds are variable rate bonds whose future debt service was not determinable.

Subsequent to February 28, 1987, the Series 1983 Bonds were redeemed. Accordingly the defeasance will be recognized for financial statement purposes for the fiscal year ending February 28, 1988, and does not result in an extraordinary gain or loss.

Refunding - In 1985 the County refunded \$186,230,000 current interest bonds included in the Series 1984 Bonds to reduce the future debt service for this amount of principal.

Debt Service Requirements - The payment of the principal and interest on the bonds, excluding the Multi Mode Bonds, is secured by a continuing direct annual ad valorem tax, without limit as to rate or amount, on all taxable property in the County. As of February 28, 1987, there has been no levy for such tax since no tax revenues have been required for debt service. In addition, the debt service is secured by the gross revenues of the toll road system. The County expects to pay such debt service out of such gross revenues when the toll road system becomes fully operational. Until that time, the County expects to pay most of such debt service out of a portion of the bond proceeds and interest revenues thereon.

The following debt service requirements schedule includes the mandatory redemptions for Series 1984, Series 1985, Series 1985 A-E (assuming the most recent TENR of 3.75%), Series 1985-F, Multi Mode Series 1985-A and the requirements for the Multi Mode

Bonds Series 1985 B-G through the initial mandatory purchase dates. Series 1983 is not included because of the redemptions described above.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1988	\$ 179,345,000	\$ 69,662,046	\$ 249,007,046
1989	147,775,000	57,455,861	205,230,861
1990	123,220,000	47,797,820	171,017,820
1991	-	41,134,852	41,134,852
1992	2,540,000	41,042,777	43,582,777
1993-1997	35,349,518	234,836,225	270,185,743
1998-2002	60,754,000	251,803,763	312,557,763
2003-2007	114,316,482	202,896,349	317,212,831
2008-2012	203,025,000	121,929,508	324,954,508
2013-2018	<u>231,175,000</u>	<u>35,855,820</u>	<u>267,030,820</u>
Total	<u>\$1,097,500,000</u>	<u>\$1,104,415,021</u>	<u>\$2,201,915,021</u>

Unissued Authorized Bonds - At February 28, 1987, the County has voter authorization to issue additional unlimited tax bonds in the amount of \$300,000,000.

5. RETIREMENT PLANS

All of the employees of the County are members of the Texas County and District Retirement System ("System"), a money-purchase, defined contribution pension plan. Under such plan, the members and the County each contribute an amount equal to 7% of the members' earnings. Total contributions to the System by the Toll Road in 1987 and cumulative for the period since date of inception were \$55,461 and \$130,182, respectively.

In addition to providing pension benefits, the County provides certain health care and life insurance benefits for retired employees. Substantially all of the County's employees may become eligible for those benefits if they reach normal retirement age while working for the County. The cost of retiree health care and life insurance benefits is recognized when paid. Those costs were not material for 1987 and cumulative for the period since date of inception.

6. COMMITMENTS

At February 28, 1987, the Toll Road had committed approximately \$90,000,000 for construction oriented activities. Financing for the commitments is expected to primarily be provided through bond proceeds.