

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

Financial Statements as of February 29,
1988 and for the Year 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 29, 1988 and the related statements of operations and of changes in financial position for the year 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 29, 1988 and the results of its operations and the changes in its financial position for the year 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.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of cash receipts and disbursements in operating and restricted accounts under revenue bond ordinances for the year ended February 29, 1988 is presented for purposes of additional analysis and is not a required

part of the basic financial statements. Such supplemental schedule has been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte Haskins + Sells

May 31, 1988

LIABILITIES AND FUND EQUITY (DEFICIT)

NOTE

CURRENT LIABILITIES - Payable from unrestricted
assets:

Vacation payable	\$	25,578
Rental security deposits		<u>4,291</u>
Total current liabilities - payable from unrestricted assets		<u>29,869</u>

CURRENT LIABILITIES - Payable from restricted
assets:

Accrued interest payable		17,997,235
Vouchers payable		5,536,361
Retainages payable		6,904,113
Salaries payable		<u>5,790</u>
Total current liabilities - payable from restricted assets		<u>30,443,499</u>

LONG-TERM LIABILITIES:

Bonds payable	4	1,103,693,669
Compensatory time payable		<u>10,203</u>
Total non-current liabilities		<u>1,103,703,872</u>
Total liabilities		<u>1,134,177,240</u>

FUND EQUITY (DEFICIT):

Contributed capital		20,958,643
Deficit accumulated during the development stage		<u>(36,505,481)</u>
Total fund equity (deficit)		<u>(15,546,838)</u>
TOTAL		<u>\$1,118,630,402</u>

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

STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED FEBRUARY 29, 1988 AND
CUMULATIVE FOR THE PERIOD SINCE DATE OF
INCEPTION (September 13, 1983)

	<u>NOTE</u>	<u>1988</u>	<u>CUMULATIVE</u>
OPERATING REVENUES:			
Toll revenues		\$ 709,477	\$ 709,477
Lease of building		<u>73,662</u>	<u>88,323</u>
Total Operating Revenues		<u>783,139</u>	<u>797,800</u>
OPERATING EXPENSES:			
Road operations		458,977	458,977
Administrative		2,645,356	8,112,868
Depreciation		1,899,211	1,913,287
Building operations		<u>56,660</u>	<u>63,481</u>
TOTAL OPERATING EXPENSES		<u>5,060,204</u>	<u>10,548,613</u>
LOSS FROM OPERATIONS		(4,277,065)	(9,750,813)
NONOPERATING REVENUES (EXPENSES):			
Interest expense		(9,405,503)	(9,405,503)
Interest revenue		5,575,688	5,575,688
Other		<u>2,390</u>	<u>46,561</u>
LOSS BEFORE EXTRAORDINARY ITEM		(8,104,490)	(13,534,067)
EXTRAORDINARY ITEM - Cost Associated with Bond Refundings	4	<u>(1,922,591)</u>	<u>(22,971,414)</u>
NET LOSS		(10,027,081)	(36,505,481)
DEFICIT ACCUMULATED DURING THE DEVELOP- MENT STAGE - BEGINNING		<u>(26,478,400)</u>	<u>-</u>
DEFICIT ACCUMULATED DURING THE DEVELOP- MENT STAGE - ENDING		<u><u>\$(36,505,481)</u></u>	<u><u>\$(36,505,481)</u></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 YEAR ENDED FEBRUARY 29, 1988 AND
CUMULATIVE FOR THE PERIOD SINCE DATE OF
INCEPTION (September 13, 1983)

	<u>1988</u>	<u>CUMULATIVE</u>
SOURCES OF CASH AND INVESTMENTS:		
Operations:		
Loss before extraordinary item	\$ (8,104,490)	\$ (13,534,067)
Add non-cash item - depreciation	<u>1,899,211</u>	<u>1,913,287</u>
Used by operations	(6,205,279)	(11,620,780)
Extraordinary item - cost associated with future interest savings	(1,922,591)	(22,971,414)
From bond sales:		
Proceeds from bond sales	244,770,000	1,682,584,599
Bond refunding, remarketing and redemption	(294,770,000)	(578,160,000)
Increase (decrease) in:		
Multi-mode pledged account	211,577,333	(208,730,102)
Interest receivable	1,273,409	(3,251,522)
Deferred charges	(830,802)	(10,886,450)
Increase (decrease) in:		
Interest and vouchers payable	(2,126,454)	30,483,571
Bond premiums	(230,820)	(730,930)
Contributed capital	<u>1,560,399</u>	<u>20,958,643</u>
TOTAL SOURCES OF CASH AND INVESTMENTS	<u>153,095,195</u>	<u>897,675,615</u>
USES OF CASH AND INVESTMENTS:		
Additions (deductions) to:		
Construction work in progress	2,339,419	303,205,792
Rights-of-way	13,463,432	88,369,587
Building	-	1,233,909
Land	-	366,091
Roads	132,793,205	132,793,205
Equipment	86,187	156,629
Travel advances receivable	(155)	445
Due from other funds	<u>-</u>	<u>218,179</u>
TOTAL USES OF CASH AND INVESTMENTS	<u>148,682,088</u>	<u>526,343,837</u>
INCREASE IN CASH AND INVESTMENTS	4,413,107	371,331,778
CASH AND INVESTMENTS - BEGINNING	<u>366,918,671</u>	<u>-</u>
CASH AND INVESTMENTS - ENDING	<u>\$371,331,778</u>	<u>\$ 371,331,778</u>

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 1988

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. The construction of the Hardy Toll Road and the Sam Houston Parkway has been financed with a combination of unlimited tax and subordinate lien revenue bonds and senior lien revenue bonds. The proceeds from such bonds, including the interest thereon, are being used to finance the construction costs, the related debt service and a portion of the maintenance and operating expenses of the Toll Road. When all the debt service, as discussed in Note 4, has been paid or provided for in a trust fund, the Toll Roads shall become a part of the State of Texas Highway System.

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 market 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. In late September of 1987, the northern section of the Hardy Toll Road ("Hardy North Section") was opened for operations. All interest expense and interest earnings were capitalized through September. Beginning in October of 1987, the net interest has been prorated based on the number of miles of the uncompleted sections to the total miles of the project in order to capitalize only the net interest of the uncompleted sections. Such capitalization affected the cost of assets constructed by the Toll Road by approximately \$(2,301,394) and \$30,767,687 in 1988 and cumulative for the period since date of inception, respectively.

Property is depreciated using the straight-line method. The Hardy North Section is depreciated based on a 30-year useful life. The estimated useful lives for the Toll Road Office Building and equipment are 30 years and 4-10 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 using the straight-line method over the remaining term of the bonds which does not significantly differ from the interest method.

Workers' Compensation Insurance

The Toll Road is covered by the Harris County Compensation Self-Insurance Program which provides medical and indemnity payments as required by law for on-the-job related injuries. A contract with Jardine, Emmett, and Chandler for Plan Administration services expired on October 1, 1987. These services provided a guideline for administrative services for which the County now handles in-house or by separate contract. Claims processing is handled by the General Adjustment Bureau with the County Attorney representing the County in legal matters associated with the program. Under the program, the County has obtained reinsurance coverage for excess workers' compensation and employer's liability. The limits of coverage are statutory for workers' compensation and \$1 million for employer's liability. The retention (deductible) for the policy for the fiscal year ending February 29, 1988 is \$1 million per occurrence. The activity of the self insurance program is recorded in Harris County's Workers' Compensation Self-Insurance Internal Service Fund.

Paid Absences

Employees receive from 10 to 60 days of sick leave per year, depending on years of service. Sick leave benefits are recognized as they are used by the employees. Unused sick leave benefits lapse upon termination or at calendar year end and, accordingly, there is no liability recorded at February 29, 1988.

Employees with more than one year of service receive from 2 to 4 weeks vacation per year, depending on years of service. Unused vacation benefits lapse at calendar year-end and upon termination except for exempt employees who may convert such benefits to compensatory time, subject to the 240 hour maximum.

Non-exempt employees earn compensatory time at one and a half times their full pay times the excess of 40 hours worked. Non-exempt employees can accumulate compensatory time indefinitely. Upon termination, compensatory time is calculated at the current rate of pay. Exempt employees earn compensatory time at one times their full pay times the excess of 40 hours worked. Non-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 current wage rate.

2. CASH AND INVESTMENTS

The Toll Road's demand deposits at February 29, 1988 were covered by federal depository insurance or by pledged collateral held at the Federal Reserve Bank in the Toll Road's name, or in the trust department of an independent third party agent in the Toll Road's name. Such total collateralization and insurance coverage is required by state statutes.

State statutes authorize the Toll Road 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 Toll Road. Investments in repurchase agreements may be made only with the state or national banks domiciled in the State of Texas with which the Toll Road has signed master repurchase agreements.

The Toll Road's investments at February 29, 1988 are shown below. Investments are stated at cost, or amortized cost. In prior years, investments were stated at cost at the date of purchase, and did not reflect amortization of any premiums or discounts. The effect of the change in accounting policy in the Toll Road Enterprise Fund was to increase the amount of interest income capitalized as part of the construction costs of the Toll Road. Such increased amount was not material.

Investments consist of U.S. Government securities held at the Federal Reserve Bank through the Toll Road's depository bank agents' or trust agent's custodial accounts. In some cases the depository bank agent and the trust agent are also the counterparty. The Toll Road did not invest in any repurchase agreements throughout the period.

	<u>Carrying Value</u>	<u>Market Value</u>
Included in Restricted Cash and Temporary Investments:		
Held by Depository Bank Agents' Safe- keeping or Trust Department in the Toll Road's Name	\$464,018,488	\$465,300,281
Held by Counterparty's Trust Department in the Toll Road's Name	67,204,947	67,217,364
Held by Counterparty's Safekeeping Department in the Toll Road's Name	<u>9,701,975</u>	<u>9,701,810</u>
Total Investments in U.S. Government Securities	<u>\$540,925,410</u>	<u>\$542,219,455</u>

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

The following is a summary of bonds payable transactions:

Balance, March 1, 1987	\$1,153,924,489
Issues	244,770,000
Maturities/Refundings	(294,770,000)
Premium Amortization	<u>(230,820)</u>
Balance, February 29, 1988	<u>\$1,103,693,669</u>

Bonds payable consist of the following:

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, adjust- able 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 D, F and G, interest at 7%-7.2% payable semiannually; initial mandatory purchase dates 1988-1990	205,570,000
Multiple Mode Senior Lien Revenue Bonds, Series 1985-A, interest at 7.3%-7.4% payable semiannually; optional redemption allowance, mandatory redemption 1996-2002	97,160,000
Multiple Mode Senior Lien Revenue Bonds, Series 1985-B, interest at 8 5/8%-8.7% payable semiannually; optional redemption allowance, mandatory redemption 1996-2002	85,940,000
Toll Road Senior Lien Revenue Refunding Bonds, Series 1987, interest at 8 5/8%-8.7% payable semiannually; optional redemption allowance, mandatory redemption 1996-2002	65,425,000
Multiple Mode Senior Lien Revenue Bonds, Series 1985-C, interest at 8%-8 1/8% payable semiannually; optional redemption allowance, mandatory redemption 1996-2002	<u>93,405,000</u>
Total Long-term Principal	1,097,500,000
Unamortized Premium on Series 1985-F Bonds	<u>6,193,669</u>
TOTAL BONDS PAYABLE	<u><u>\$1,103,693,669</u></u>

*An interest rate determined weekly by Bankers Trust Company 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 29, 1988	<u>\$13,770,000</u>	<u>\$100,000,000</u>	<u>\$186,230,000</u>

Compound interest bonds, interest payable upon maturity:

Total payment at maturity	\$45,838,316	\$51,316,678	\$51,200,000
Interest rates	9.25%-10.25%	8.75% - 10%	13.582% - 13.5
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%	96%
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. As of February 29, 1988, the initial modes of the Series A, B and C had been remarketed in the fixed mode and Series E was refunded with fixed rate bonds. In the event that the remaining 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, or 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 1985 A-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 1985 A-E Bonds are subject to purchase on the demand of the holder, at anytime 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 standby 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 5 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 February 29, 1988:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$234,375,000</u>	<u>\$484,375,000</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 5 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 semi-annual installments of principal and interest based on the purchased bond rate. To date, the County has never defaulted on any of its bonded debt obligations.

Refunding

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 is not determinable. In June 1987 the Series 1983 Bonds were redeemed. Accordingly, the redemption was recognized for financial statement purposes for the fiscal year ended February 29, 1988.

In August 1987, the County issued \$65,425,000 of Toll Road Senior Lien Revenue Refunding Bonds, Series 1987, with interest rates ranging from 7.25% to 8.70%, to refund \$65,425,000 of outstanding Toll Road Multiple Mode Senior Lien Revenue Bonds, Series 1985-E, scheduled to have been remarketed on February 15, 1989. The County advance refunded such bonds in order to secure the interest rates that prevailed at the time of refunding. The refunded bonds were in the initial mode, scheduled for conversion to the fixed mode. The pledged account maintained a sufficient balance to meet debt service requirements to the mandatory purchase date. At such time, proceeds from the pledged account would have been used to pay the purchase price of the bonds in the initial mode. The proceeds of the Refunding Bonds, Series 1987, were used to purchase U.S. Treasury securities, and were placed in an escrow fund, pledged to pay the principal and interest on the refunded bonds. Upon the establishment of the escrow fund, the proceeds of the pledged account became available to pay the cost of the project. This refunding resulted in an increase in debt service requirements of \$125,616,516, and an economic loss of \$1,606,744.

Debt Service Requirements

The payment of the principal and interest on the Toll Road 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 29, 1988, the levy for such tax has been for zero amount since no tax revenues have been required for debt service. In addition, the debt service is secured by 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 the 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 1985A-E (assuming the most recent TENR of 4.5%), Series 1985-F, Multi Mode Series 1985A-C, Refunding Series 1987 and the requirements for the Multi Mode Bonds Series 1985D, F and G through the initial mandatory purchase dates.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1989	\$ 82,350,000	\$ 75,209,412	\$ 157,559,412
1990	123,220,000	70,163,834	193,383,834
1991	-	63,500,866	63,500,866
1992	2,540,000	63,408,791	65,948,791
1993	1,192,690	65,124,026	66,316,716
1994-1998	52,971,065	353,331,986	406,303,051
1999-2003	86,490,721	355,291,116	441,781,837
2004-2008	174,915,524	271,121,141	446,036,665
2009-2013	286,730,000	171,031,751	457,761,751
2014-2018	287,090,000	46,608,635	333,698,635
Total	<u>\$1,097,500,000</u>	<u>\$1,534,791,558</u>	<u>\$2,632,291,558</u>

Unissued Authorized Bonds

As of February 29, 1988, the County has voter authorization to issue additional unlimited tax bonds for Toll Road purposes in the amount of \$300,000,000.

5. PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the County defeased certain 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. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Toll Road's financial statements. At February 29, 1988, the outstanding principal balance of these defeased bonds was \$251,655,000.

6. RETIREMENT PLAN

Plan Description

All officials and permanent employees ("employees") of the County are members of the Texas County and District Retirement System ("TCDRS"), a money-purchase, defined, contribution and pension plan established by State legislation. Under the plan, both the County and employee are required to contribute an amount equal to 7% of the employee's monthly earnings. An employee is required to participate in the plan if he/she is less than 60 years of age and received compensation from the County for at least 900 hours of service during the year. Employees over the age of 60 may elect to participate. The County's contribution for each employee, including interest allocated to the employee's account, is fully vested after 10 years' continuous service. Forfeited County contributions and related interest are allocated to the remaining plan participants pending vesting.

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

Contribution Requirements

The contribution rate of the County is 7% of the member employee's earnings. This rate, which is not actuarially determined, is a fixed percent equal to the contribution rate payable by the member employee.

The County's total payroll for fiscal year 1988 was \$200,200,881, of which \$193,195,041 was covered by the plan. Total contributions to TCERS by the Toll Road in 1988 and cumulative for the period since date of inception were \$74,059 and \$204,241, respectively.

Funding Status

Although the substance of the County's plan is not to provide a defined benefit in some form, additional disclosure is appropriate due to the nontraditional (for a defined contribution plan) existence of an unfunded pension benefit obligation and employer-financed monetary credits in excess of 100% of the employee's personal contributions. The County's 7% contribution includes the normal cost of 6.22% to fund the currently accruing monetary credits and 0.78% to amortize the unfunded pension benefit obligation quantified below. The plan had an initial unfunded pension benefit obligation due to the monetary credits granted by Commissioners Court for services rendered before the plan began and can have additions to the unfunded pension benefit obligation through the periodic adoption or increases in benefit credits and benefits.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required for defined benefit plans except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. The calculations were made as part of the annual actuarial valuation as of December 31, 1986. Because of the money-purchase nature of the plan, the interest rate assumption, currently 9% per year, does not have as much impact on the results as it does for a defined benefit plan. Market value of assets was not determined as of December 31, 1986, but TCDRS management believes that market value exceeds book value as of that date.

The unfunded pension benefit obligation for the Harris County reporting entity (which includes both the Harris County and Harris County Flood Control District legal entities) at December 31, 1986 include the following:

Annuitants	\$ 27,945,534
Members:	
Accumulated employee contributions	
including allocated investment earnings	111,478,265
Employer-financed vested	100,770,691
Employer-financed nonvested	<u>46,140,920</u>
Total	286,335,410
Net Assets Available for Benefits, at Book Value	<u>257,008,017</u>
Unfunded Pension Benefit Obligation	<u>\$ 29,327,393</u>

The unfunded pension benefit obligation is to be amortized with a level percent of payroll assumed to be 0.78% each year in the valuation above. The rate available to amortize the unfunded pension benefit obligation may, however, vary slightly from year to year since it is determined as the County contribution rate (7%) minus its normal cost contribution rate (recalculated annually). As a result, the amortization period may vary from year to year. At December 31, 1986 the amortization period was 23 years.

The amounts above reflect the adoption of changes in the plan since the previous actuarial valuation, which had the effect of increasing the unfunded pension benefit obligation by \$2,605,791.

Trend Information

For the plan year ending December 31, 1986, available assets were sufficient to fund 90% of the pension benefit obligation. The unfunded pension obligation represented 14% of the annual payroll for employees covered by the plan for 1987. In addition, the County's contribution to the plan for 1987 was 7% of the annual covered payroll for such year.

Additional trend information relating to the funding status of the plan may be found in the separate annual report of the TCDRS.

Post Retirement Benefits

In addition to providing pension benefits, the Toll Road provides certain health care and life insurance benefits for retired employees. Substantially all of the Toll Road's employees may become eligible for those benefits if they reach normal retirement age while working for the Toll Road. The cost of retiree health care and life insurance benefits is recognized when paid. For 1988, these costs were not material.

7. COMMITMENTS

As of February 29, 1988, 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.

At February 29, 1988, the Toll Road had operating leases for computer equipment requiring annual rental payments of \$1,386,678 for each of the next five years.

8. SUBSEQUENT EVENT

On April 28, 1988, the Toll Road issued Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1988 in the amount of \$85,695,000 to advance refund a portion of the outstanding Toll Road Unlimited Tax and Subordinate Lien Revenue Bonds, Series 1985 and to achieve a net present value debt service savings of approximately \$5,000,000.

HARRIS COUNTY, TEXAS TOLL ROAD ENTERPRISE FUND

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS IN OPERATING AND RESTRICTED ACCOUNTS
UNDER REVENUE BOND ORDINANCES FOR THE YEAR ENDED FEBRUARY 29, 1988

	<u>Construction Fund</u>	<u>Revenue Fund</u>	<u>Revenue Bond Fund</u>	<u>Tax Bond Fund</u>	<u>Office Fund</u>	<u>Surplus Fund</u>	<u>Total</u>
Cash and investments, beginning	\$184,403,442	\$ -	\$442,417,267	\$160,390,055	\$ 15,342	\$ -	\$787,226,106
RECEIPTS:							
Transfers from other accounts	198,637,561	-	-	-	-	178,176	198,815,737
Operating revenues	-	709,477	-	-	211,800	-	921,277
Interest income	12,995,915	9,605	42,129,884	11,066,568	4,934	47	66,206,953
Bond proceeds	-	-	244,770,000	-	-	-	244,770,000
Contributions	1,560,399	-	-	-	-	-	1,560,399
Reimbursements	181,972	-	-	-	303	-	182,275
Total Receipts	<u>213,375,847</u>	<u>719,082</u>	<u>286,899,884</u>	<u>11,066,568</u>	<u>217,037</u>	<u>178,223</u>	<u>512,456,641</u>
DISBURSEMENTS:							
Principal payments	-	-	179,345,000	50,000,000	-	-	229,345,000
Interest payments	-	-	39,841,668	37,304,214	-	-	77,145,882
Loss on refunding	66,110	-	1,448,120	-	-	-	1,514,230
Transfer to escrow	-	-	65,425,000	-	-	-	65,425,000
Accrued interest purchased	1,408,291	-	299,943	2,699,312	-	-	4,407,546
Equipment	86,187	-	-	-	-	-	86,187
Engineering	10,174,257	-	-	-	-	-	10,174,257
Construction	132,814,723	-	-	-	-	-	132,814,723
Rights-of-way	14,543,809	-	-	-	-	-	14,543,809
Deferred charges	147,601	-	3,518,064	-	-	-	3,665,665
Operation & maintenance expenses	431,751	-	-	-	59,861	-	491,612
Administrative expenses	3,191,627	-	-	59,817	-	-	3,251,444
Transfers to other accounts	-	187,781	187,482,920	11,144,989	-	47	198,815,737
Total disbursements	<u>162,864,356</u>	<u>187,781</u>	<u>477,360,715</u>	<u>101,208,332</u>	<u>59,861</u>	<u>47</u>	<u>741,681,092</u>
Cash and investments, ending	<u>\$234,914,933</u>	<u>\$531,301</u>	<u>\$251,956,436</u>	<u>\$ 70,248,291</u>	<u>\$172,518</u>	<u>\$178,176</u>	558,001,655
Unamortized net premium on investments							22,060,225
Total							<u>\$580,061,880</u>