

**Deloitte &
Touche**



**TOLL ROAD ENTERPRISE FUND
OF HARRIS COUNTY, TEXAS**

Financial Statements As of February 28,
1993 and February 29, 1992 and for
the Years Then Ended, Supplemental
Schedule for the Year Ended February 28,
1993 and Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Harris County, Texas Toll Road Enterprise Fund (the "Toll Road Project") as of February 28, 1993 and February 29, 1992, the related statements of operations and changes in accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the management of Harris County, Texas. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Toll Road Project and are not intended to present the financial position of Harris County, Texas and the results of its operations and the cash flows of its proprietary fund types, in conformity with generally accepted accounting principles.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Toll Road Project as of February 28, 1993 and February 29, 1992, the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedule of Cash Receipts and Disbursements Under Bond Ordinances is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the management of Harris County, Texas. Such schedule has been subjected to the auditing procedures applied in our audits 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 & Touche

May 28, 1993

**HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
BALANCE SHEETS
FEBRUARY 28, 1993 AND FEBRUARY 29, 1992**

<u>ASSETS</u>	<u>1993</u>	<u>1992</u>
RESTRICTED ASSETS: (Note 3)		
Cash and cash equivalents (Note 2)	\$ 7,207,870	\$ 4,037,644
Investments (Note 2)	180,451,697	215,018,534
Accrued interest receivable	1,454,775	3,141,787
Accounts receivable	401,478	1,586,872
Bond proceeds receivable (Note 5)	-	466,445,849
Prepaid interest payable (Note 5)	-	5,057,876
Other	24,503	11,089
Total current restricted assets	<u>189,540,323</u>	<u>695,299,651</u>
PROPERTY:		
Roads, bridges and rights-of-way	821,813,637	819,357,287
Building	2,364,139	2,364,138
Land	366,091	366,091
Equipment	713,697	497,372
Less accumulated depreciation	<u>(96,420,836)</u>	<u>(72,822,669)</u>
Property, net	<u>728,836,728</u>	<u>749,762,219</u>
DEFERRED CONSTRUCTION COSTS (Note 4)	10,323,173	10,113,169
DEFERRED CHARGES, NET OF AMORTIZATION	21,254,559	22,500,163
TOTAL ASSETS	<u>\$949,954,783</u>	<u>\$1,477,675,202</u>

See notes to financial statements.

LIABILITIES AND FUND DEFICIT

	<u>1993</u>	<u>1992</u>
CURRENT LIABILITIES - Payable from restricted assets (Note 3):		
Due to escrow agent (Note 5)	\$ -	\$506,445,849
Vouchers payable and accrued liabilities	1,207,824	2,141,509
Current portion of long-term debt	1,045,431	1,192,690
Current portion of accrued interest payable	3,130,340	3,244,387
Accrued payroll and compensated absences	242,875	251,257
Customer deposits	144,934	99,174
Arbitrage rebate payable	360,828	453,550
Other	558,852	349,800
Total current liabilities - payable from restricted assets	<u>6,691,084</u>	<u>514,178,216</u>
NONCURRENT LIABILITIES:		
Long-term debt (Notes 3 and 5):		
Senior lien revenue bonds (Net of unamortized discounts of \$10,928,526 and \$11,208,754, respectively)	570,906,474	570,626,246
Tax bonds (Net of unamortized net premiums of \$66,915,026 and \$65,747,794, respectively)	604,987,897	604,866,095
Accrued interest payable (Note 5)	46,676,959	35,390,284
Compensatory time payable	14,616	19,149
Total noncurrent liabilities	<u>1,222,585,946</u>	<u>1,210,901,774</u>
Total liabilities	<u>1,229,277,030</u>	<u>1,725,079,990</u>
FUND DEFICIT		
Contributed capital (Note 8)	22,532,809	22,118,191
Accumulated deficit (Note 10)	(301,855,056)	(269,522,979)
Total fund deficit	<u>(279,322,247)</u>	<u>(247,404,788)</u>
TOTAL LIABILITIES AND FUND DEFICIT	<u>\$949,954,783</u>	<u>\$1,477,675,202</u>

HARRIS COUNTY, TEXAS

TOLL ROAD ENTERPRISE FUND

STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT

FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992

	<u>1993</u>	<u>1992</u>
TOLL REVENUES	<u>\$67,324,767</u>	<u>\$61,298,322</u>
OPERATING EXPENSES:		
Road operations (Note 9)	11,006,346	9,769,703
Depreciation	23,610,454	23,708,947
Administrative	5,608,763	3,825,286
Other	<u>117,522</u>	<u>66,252</u>
Total operating expenses	<u>40,343,085</u>	<u>37,370,188</u>
INCOME FROM OPERATIONS	<u>26,981,682</u>	<u>23,928,134</u>
NONOPERATING REVENUES (EXPENSES):		
Interest revenue	11,658,212	17,207,405
Interest expense (Note 5)	(73,457,747)	(80,098,097)
Gain on sale of investments	4,662,831	83,491
Other	<u>(2,177,055)</u>	<u>(854,490)</u>
Total nonoperating revenues (expenses)	<u>(59,313,759)</u>	<u>(63,661,691)</u>
Loss before extraordinary item	(32,332,077)	(39,733,557)
Extraordinary loss on refunding of debt (Note 5)	<u>-</u>	<u>(73,751,067)</u>
Net loss	(32,332,077)	(113,484,624)
Accumulated deficit, beginning of year	<u>(269,522,979)</u>	<u>(156,038,355)</u>
Accumulated deficit, end of year (Note 10)	<u><u>(\$301,855,056)</u></u>	<u><u>(\$269,522,979)</u></u>

See notes to financial statements.

**HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992**

	<u>1993</u>	<u>1992</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income	\$26,981,682	\$23,928,134
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	23,610,454	23,708,947
Amortization of deferred charges	1,245,604	750,891
Other nonoperating revenues	(2,177,055)	(854,490)
Changes in current assets and liabilities:		
Increase in other receivables	(12,560)	(48,294)
Decrease (increase) in other assets	(107)	27,896
Increase (decrease) in current liabilities payable from restricted assets	(1,058,126)	130,752
Increase (decrease) in compensatory time payable	(4,533)	3,955
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>48,585,359</u>	<u>47,647,791</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Loans to General Fund (Note 11)	(20,000,000)	(37,000,000)
Proceeds from loans to General Fund (Note 11)	20,000,000	37,000,000
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond refunding	468,629,217	206,577,665
Escrow deposit for refunded bonds	(494,640,837)	(203,017,650)
Issuance costs	(11,479,300)	(2,719,011)
Construction of capital assets	(1,484,957)	(985,680)
Acquisition of rights-of-way	(1,181,398)	(2,267,620)
Purchase of equipment	(224,342)	(76,984)
Principal paid on bonds	(1,192,690)	(2,540,000)
Payment of supplemental interest certificates	-	(1,807,196)
Interest paid on debt	(56,737,604)	(67,582,774)
Contributed capital	414,618	226,046
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(97,897,293)</u>	<u>(74,193,204)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(164,943,144)	(164,683,678)
Proceeds from sale and maturity of investments	198,660,170	172,147,489
Gain on investments	4,662,831	83,491
Interest received	14,102,303	18,240,535
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>52,482,160</u>	<u>25,787,837</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,170,226	(757,576)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,037,644</u>	<u>4,795,220</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$7,207,870</u>	<u>\$4,037,644</u>

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Harris County Toll Road Authority (the "Authority") was created by Harris County, Texas, (the "County") by order of Commissioners Court on September 13, 1983, with the Commissioners Court designated as the Governing Body and the Operating Board of the Authority. The Authority is a department of Harris County and is charged with overseeing the acquisition, construction, improvement, operation and maintenance of the County toll road facilities and services (the "Toll Road Project"). The Commissioners Court has full oversight responsibility for the Authority, and the Toll Road Project is an integral part of the County's financial statements. Construction of the Hardy Toll Road and the Sam Houston Tollway (the "Toll Roads") has been financed with a combination of unlimited tax and subordinate lien revenue bonds and senior lien revenue bonds. When all the debt service, as discussed in Note 5, has been paid or provided for in a trust fund, the Toll Roads will become a part of the State of Texas Highway System. The entire tollway has been in full operation since the second half of fiscal year 1991.

B. BASIS OF ACCOUNTING

The Toll Road Enterprise Fund, a proprietary fund type, is accounted for using the full accrual basis of accounting, a flow of economic resources measurement focus. Under this measurement focus, resources are recognized in the period earned, and expenses are recognized in the period incurred.

C. CASH AND INVESTMENTS

State statutes authorize the Toll Road Project to invest in fully collateralized or insured time deposits, direct debt securities of the United States or its Agencies, commercial paper, money market mutual funds, and fully collateralized repurchase agreements. Per County policy, the repurchase agreements must be purchased pursuant to a master repurchase agreement which specifies the rights and obligations 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 repurchase agreements may be made only through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in the state of Texas with which the County has signed a master repurchase agreement. Investments are stated at cost or amortized cost.

D. FIXED ASSETS

All fixed assets are stated at historical cost. Donated fixed assets are stated at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset ranging from four to thirty years. Roads and buildings are depreciated over a 30-year useful life. Computer equipment and vehicles are depreciated over an estimated useful life of four years, while all other equipment is depreciated over an estimated useful life of ten years.

The Toll Road Project 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. All interest expense, interest earnings and the amortization of related bond costs were capitalized until September 1987 when the first of four sections of the Toll Road was opened for operations. Beginning in October of 1987, net interest and other bond costs have been capitalized based on the percentage of miles of the uncompleted sections to the total miles of the project. Such capitalization increased the cost of assets constructed by the Toll Road Project by approximately \$-0- in 1993 and \$360,530 in 1992.

**HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992**

E. DEFERRED CHARGES

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

F. PREMIUMS (DISCOUNTS) ON BONDS PAYABLE

Premiums (discounts) on bonds payable are amortized using the effective interest method over the term of the bonds.

G. RISK MANAGEMENT

The Toll Road Project is covered by the Harris County workers' compensation self-insurance program which provides medical and indemnity payments as required by law for on-the-job-related injuries. This program is accounted for in an internal service fund. Claims processing is administered by Texas Employers' Insurance Association in connection with the County Attorney. The County has reinsurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the policy for the fiscal year ended February 28, 1993 is \$750,000 per occurrence. The liability for outstanding losses includes an amount for incurred but not reported claims which have been actuarially determined.

Employees of the Toll Road are covered for group health benefits through the County Group Health Insurance Internal Service Fund which was established in 1989 to account for the County's group health insurance plans. The County offers medical coverage under Sanus/New York Life. Under the agreement, the total remittance due for the contract year ended February 28, 1993 was limited to the monthly premiums payable based on the number of employees enrolled during the year. The County also provides employees with vision and dental benefits. All accruals for estimated claims and incurred but not reported claims have been recorded at February 28, 1993 in the County's internal service funds.

The Toll Road Authority has property, plant and equipment insurance coverage with various carriers. Claims made up to the deductible limit are expensed when paid.

H. COMPENSATED ABSENCES

Accumulated compensatory leave, vacation and sick leave are recorded as an expense and liability as the benefit accrues for the employee.

Effective January 2, 1993, employees accrue twelve days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 480 sick leave hours. Employees with more than one year of service accrue from two to four 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. A liability for vacation earned, but not taken, has been recorded.

Nonexempt employees earn compensatory time at one and a half times their full pay times the excess of 40 hours worked. Nonexempt 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

**HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992**

times their full pay times the excess of 40 hours worked. 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. Accordingly, a liability for compensatory time earned has been recorded.

As of February 28, 1993 and February 29, 1992, \$171,375 and \$171,095, respectively, have been recorded for future compensated absences.

I. STATEMENTS OF CASH FLOWS

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

J. RECLASSIFICATIONS

Certain amounts for fiscal year 1992 have been reclassified in the financial statements to facilitate financial analysis.

NOTE 2. CASH AND INVESTMENTS

The carrying amount of the Toll Road Project's deposits was \$253,853 and \$467,228 at February 28, 1993 and February 29, 1992, respectively. The bank balances of \$150,026 at February 28, 1993 and \$979,649 at February 29, 1992 were covered by federal depository insurance or collateralized with securities held by the Toll Road Project's agent in the Toll Road Project's name.

At year-end, investments consist of U. S. government securities and money market mutual funds and are categorized as either: (1) insured or registered, or securities held by the Toll Road Project's agent in the Toll Road Project's name; (2) uninsured or unregistered, with securities held in the trust department of the Toll Road Project's counterparty in the Toll Road Project's name, and; (3) uninsured or unregistered, with securities held at the Federal Reserve or other third party in the account of the Toll Road Project's counterparty. At February 28, 1993, \$150,841,624 of the Toll Road Project's investments were included in category (1), \$9,988,384 in category (2) and \$24,380,076 in category (3). For February 29, 1992, all of the \$214,732,534 of Toll Road Project's investments were included in category (1). Year-end carrying amounts and market values of the Toll Road Project's investments are as follows:

	1993		1992	
	Carrying Amount	Market Value	Carrying Amount	Market Value
<u>Restricted:</u>				
Cash equivalents	\$ 4,758,387	\$ 4,758,387	\$ -	\$ -
Investments	180,451,697	188,264,556	214,732,534	219,444,758
Money market mutual funds	2,195,630	2,195,630	3,856,416	3,856,416

**HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992**

NOTE 3. RESTRICTED ASSETS

Certain Toll Road Project assets are required to be segregated under terms of various bond indentures. These assets are legally restricted for certain purposes, including operations and maintenance, debt service and construction. The Toll Road Project has pledged under the bond indentures to maintain certain amounts in a debt service reserve. During fiscal years 1993 and 1992, the Toll Road Project was in compliance with these covenants.

NOTE 4. DEFERRED CONSTRUCTION COSTS

Construction of the airport connector, which will run generally parallel to and north of Greens Road and connect directly with the JFK Boulevard access to the airport, is proposed in the capital budget for fiscal year 1994. However, the County has not made a commitment to undertake such construction at this time. The capitalized costs for the project include engineering, design fees and capitalized interest and bond costs.

NOTE 5. TAX AND REVENUE BONDS

The Toll Road Project 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 earned thereon, are being used to finance the construction costs, the related debt service and a portion of the maintenance and operating expenses.

A. The Toll Road's long-term debt consisted of the following as of February 28, 1993:

Type of Debt	Stated Interest Rate Range	Principal*		
		Outstanding Balance, February 28, 1993	Less Current Maturities (To Be Paid in FY 1993-94)	Long-Term Maturities, February 28, 1993
Senior Lien Revenue Bonds	5.70% - 8.30%	\$ 570,906,474	\$ -	\$ 570,906,474
Tax Bonds	5.80% - 21.80%	606,033,328	1,045,431	604,987,897
Total - Toll Road Fund Debt		<u>\$1,176,939,802</u>	<u>\$1,045,431</u>	<u>\$1,175,894,371</u>

B. Changes in the Toll Road's Long-Term Debt for fiscal year 1992-93 were as follows:

	Principal*			
	Outstanding, February 29, 1992	Redeemed	Amortization Net Premium (Discount)	Outstanding Balance, February 28, 1993
Senior Lien Revenue Bonds	\$ 570,626,246	\$ -	\$ 280,228	\$ 570,906,474
Tax Bonds	606,058,785	(1,192,690)	1,167,233	606,033,328
Total - Toll Road Fund Debt	<u>\$1,176,685,031</u>	<u>\$(1,192,690)</u>	<u>\$1,447,461</u>	<u>\$1,176,939,802</u>

*Includes unamortized premium and accrued compound interest bonds.

**HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992**

C. Long-Term Debt Detail

Issue	Interest Rate Range(%)	Term		Special Conditions	Outstanding Balance, February 28, 1993
		Issue	Maturity		
Senior Lien Revenue Bonds					
Series 1985A	6.50 - 7.30	1985	2007	Current Interest Bonds, Maturity 1996-2007	\$ 28,355,000
Series 1985B	7.25 - 8.30	1985	2002	Current Interest Bonds, Maturity 1996-2002	11,080,000
Series 1985C	6.90 - 7.75	1985	2002	Current Interest Bonds, Maturity 1996-2002	12,035,000
Series 1985D	7.30 - 8.10	1985	2002	Current Interest Bonds, Maturity 1996-2002	10,610,000
Series 1987	7.25 - 8.30	1987	2002	Current Interest Bonds, Maturity 1996-2002	8,430,000
Series 1985-F	6.50 - 7.10	1985	2017	Current Interest Bonds, Maturity 1996-2017	60,725,000
Series 1989	7.00	1989	2013	Compound Interest Bonds, Maturity 2018-2021	25,570,000
	6.50 - 7.10	1989	2017	Current Interest Bonds, Maturity 2003-2017	36,301,213
Series 1992-A	5.70 - 6.65	1992	2017	Current Interest Bonds, Maturity 1999-2017	318,283,840
Series 1992-B	5.70 - 6.65	1992	2017	Current Interest Bonds, Maturity 1999-2017	<u>59,516,421</u>
Total Senior Lien Revenue Bonds					<u>570,906,474</u>
Unlimited Tax and Subordinate Lien Bonds (Tax Bonds)					
Series 1984 (portion refunded in 1985 and 1982)	9.75 - 10.25	1984	2000	Compound Interest Bonds, payable upon maturity 1996-2000.	8,648,685
Series 1985 (portion refunded in 1988 and 1992)	9.15 - 10.00	1985	2004	Compound Interest Bonds, payable upon maturity 1996-2004.	3,192,306
Series 1985A-E	Variable (TENR)	1985	2015	Variable Interest, mandatory redemption 1994 - 2014	250,000,000
Refunding Bonds, Series 1985F (portion refunded in 1991)	13.58 - 13.59	1985	2003	Compound Interest Bonds, payable upon maturity 1992-3003.	14,108,913
Refunding Bonds, Series 1988 (portion refunded in 1992)	13.83 - 21.80 6.40 - 7.30	1988	2012	Compound Interest Bonds, payable upon maturity 2000-2012. Current Interest Rate Bonds - maturity 1994-1999.	14,796,456 17,330,000
Refunding Bonds, Series 1991	6.95 - 7.25 5.85 - 7.50	1991	2014	Compound Interest Bonds, payable upon maturity 2001-2008. Current Interest Rate Bonds - maturity 1995-2014.	45,688,169 163,366,615
Refunding Bonds, Series 1992A	5.80 - 6.80 6.50	1992	2015	Compound Interest Bonds, payable upon maturity 1997-2008. Current Interest Bonds - maturity 2015.	27,910,897 41,967,195
Refunding Bonds, Series 1992B	5.80 - 6.80 6.50	1992	2016	Compound Interest Bonds, payable upon maturity 1997-2008. Current Interest Rate Bonds - Maturity 2010-2016.	2,770,958 <u>16,253,134</u>
Total - Tax Bonds					<u>606,033,328</u>
Total - Toll Road Bonded Debt					<u>\$1,176,939,802</u>

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TOLL ROAD ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
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The Senior Lien Revenue Bonds are payable from the revenues of the Toll Roads. The Tax Bonds are secured by and payable from a pledge of the County's unlimited ad valorem taxing power and also are secured by a pledge of and lien on the revenues of the Toll Roads, 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 Roads equal to at least 1.25 times the debt service requirements on the Senior Lien Revenue Bonds. The 1.25 revenue coverage covenant will go into effect during fiscal year 1993-1994.

The Series 1985 A-E Tax Bonds are subject to purchase on the demand of the holder, at any time prior to the conversion from the Tax-Exempt Negotiable Rate ("TENR"), at a price equal to principal plus accrued interest. The TENR is an interest rate determined weekly by Bankers Trust Company based upon current yields on short-term, tax-exempt obligations. 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 standby agreement require the County to redeem the purchased bonds upon the expiration or termination (by events of default) of the standby agreement. The scheduled expiration date of the standby agreement is June 1, 1995. The fee for the standby agreement included an initial payment of \$156,250 with an additional commission of 0.15% 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 standby agreement, the ceiling interest rate of 15% and that the standby bank has purchased all of the demand bonds as of February 28, 1993:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$46,875,000</u>	<u>\$296,875,000</u>

Upon termination of the standby 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 because of 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 semiannual 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.

D. REFUNDINGS

In April 1991 the County issued \$174,320,000 of Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1991, to refund \$174,320,000 of outstanding Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1985-F. The County refunded these bonds in order to achieve debt service savings. The proceeds of the refunding bonds, Series 1991, were used to purchase U.S.

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992**

government securities and were placed in an escrow fund, pledged to pay the principal and interest of the refunded bonds. Although this refunding resulted in an extraordinary loss of \$26,134,439, there was a decrease of debt service requirements of \$966,266 and an economic gain of \$9,698,654.

On February 15, 1992, the County sold \$388,105,000 of Toll Road Senior Lien Revenue Refunding Bonds and \$71,815,000 of Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1992-A and B, to refund portions of various issues, as shown below, of outstanding Tax Bonds and Senior Lien Revenue Bonds. These bonds were delivered in March 1992, and all transactions concerning these refundings were included in the financial statements dated February 29, 1992. The proceeds of the Series 1992 refunding bonds and \$40,000,000 from the construction fund were used to purchase U.S. government securities, which were placed in an escrow fund pledged to pay the principal and interest of the refunded bonds. Although these refundings resulted in extraordinary losses of \$46,301,080 and \$1,315,548, respectively, there was an increase (decrease) of debt service requirements of \$(54,285,571) and \$29,637,160, respectively, and economic gains of \$15,452,442 and \$2,519,143, respectively.

The bonds refunded were as follows:

<u>Refunding Issues</u>	<u>Refunded Series</u>	<u>Refunded Amount</u>
Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1991	1985-F	<u>\$174,320,000</u>
Senior Lien Revenue Refunding Bonds, Series 1992 A and B	1985* 1985-A 1985-B 1985-C 1985-D 1987	\$ 7,120,656 68,805,000 74,860,000 81,370,000 71,740,000 <u>56,995,000</u>
		<u>\$360,890,656</u>
Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1992 A and B	1984 1985 1988	\$ 5,121,314 3,992,038 <u>62,730,000</u>
		<u>\$ 71,843,352</u>

*Unlimited Tax and Subordinate Lien Revenue Bonds

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E. DEBT SERVICE REQUIREMENTS

Total interest expense was \$73,457,747 and \$80,495,415 in 1993 and 1992, respectively, of which \$-0- and \$397,318, respectively, was included in amounts capitalized.

The following are the debt service requirements for bonds payable (assuming the most recent TENR of 1.75%):

<u>Fiscal Year</u>	<u>Principal**</u>	<u>Interest</u>	<u>Total</u>
1994	\$ 1,045,431	\$ 59,526,594	\$ 60,572,025
1995	8,436,509	59,533,451	67,969,960
1996	14,893,484	59,214,308	74,107,792
1997	26,233,050	65,810,643	92,043,693
1998	27,987,709	64,334,704	92,322,413
1999-2003	141,757,642	331,778,858	473,536,500
2004-2008	168,647,686	357,878,035	526,525,721
2009-2013	323,996,790	225,091,966	549,088,756
2014-2018	382,385,000	50,376,256	432,761,256
2019-2022	<u>25,570,000</u>	<u>182,303,429</u>	<u>207,873,429</u>
Total	<u>\$ 1,120,953,301</u>	<u>\$ 1,455,848,244</u>	<u>\$ 2,576,801,545</u>

** Does not include unamortized premiums and discounts

F. FAIR VALUE OF LONG-TERM DEBT

The fair value of the Toll Road's long-term debt is estimated based on quoted market prices. Carrying value for purposes of this disclosure is defined as principal and accrued interest. As of February 28, 1993, the carrying value and fair value of the long-term debt instruments are \$1,226,747,101 and 1,396,865,993, respectively.

G. UNISSUED AUTHORIZED BONDS

As of February 28, 1993, the County has voter authorization to issue additional unlimited tax bonds on the Toll Road Project in the amount of \$350,000,000.

H. DEFEASANCE OF DEBT

In prior years, the County has defeased certain Toll Road 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 the liability for the defeased bonds are not included in the Toll Road's financial statements. At February 28, 1993 and February 29, 1992, the outstanding principal balance of these defeased bonds was \$878,979,008.

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NOTE 6. RETIREMENT PLAN

A. PLAN DESCRIPTION

All officials and permanent employees (the "employees") of the County are members of the Texas County and District Retirement System ("TCDRS"), a statewide agent, multiple-employer public employees retirement system that administers a joint contributory, defined contribution pension plan established by state legislation. Under the plan, both the County and employees are required to contribute an amount equal to 7% of the employees' monthly earnings. Eligible employees are required to participate in the plan. 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 employees' 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 employees' 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.

B. CONTRIBUTION REQUIREMENTS

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

The Toll Road Project's total payroll for fiscal years 1993 and 1992 was \$5,176,327 and \$5,259,758, respectively, of which \$4,614,400 and \$4,620,043, respectively, was covered by the plan. As required, employer and employee contributions were made each totaling \$323,008 for fiscal year 1993 and \$323,404 for fiscal year 1992.

C. FUNDING STATUS

Although the substance of the plan is not to provide a defined benefit, additional disclosure (similar to that of a defined contribution plan) is appropriate due to the nontraditional existence of an unfunded pension benefit obligation in earlier years and employer-financed monetary credits in excess of 100% of the employees' personal contributions. TCERS's actuary determined that the County's 7% contribution includes the normal cost of 5.19% to fund the currently accruing monetary credits while the remaining portion, 1.81%, is available to amortize any pension benefit obligation which may arise in the future. 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 funded pension benefit obligation through the periodic adoption or increases in benefit credits and benefits. The rate available to amortize any unfunded pension benefit obligation may vary slightly from year to year since it is determined as the County contribution rate (7%) minus the normal cost contribution rate (recalculated annually).

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. Significant actuarial assumptions used in determining the pension benefit obligation include rate of return on the investment of present and

**HARRIS COUNTY, TEXAS
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future assets of 7% for employee contributions and 9% for employer contributions compounded annually. The calculations were made as part of the annual actuarial valuation as of December 31, 1991. The actuarial valuation as of December 31, 1992 was not available at the time this report was prepared. Market value of assets is not determined as of December 31, 1992 for the County's plan, but the market value of assets for TCDRS as a whole was 111.0% of the book value as of December 31, 1991.

The pension benefit obligation and the unfunded pension benefit obligation for the Harris County reporting entity (which include both the Harris County and Harris County Flood Control District legal entities) at December 31, 1991 and 1990, respectively, include the following:

	<u>December 31</u>	
	<u>1992</u>	<u>1991</u>
Pension Benefit Obligation:		
Annuitants:		
Currently receiving benefits	\$ 47,564,680	\$ 41,940,353
Terminated employees	29,323,283	28,723,965
Members:		
Accumulated employee contributions including allocated investment earnings	195,482,398	176,256,810
Employer-financed vested	172,191,972	150,256,354
Employer-financed nonvested	<u>47,327,175</u>	<u>45,659,738</u>
Total	491,889,508	442,837,220
Net Assets Available for Benefits, at book value	<u>507,591,043</u>	<u>451,457,946</u>
Net Assets in Excess of Pension Benefit Obligation and Unfunded Pension Benefit Obligation, respectively	<u>\$ 15,701,535</u>	<u>\$ 8,620,726</u>

The funded ratio, the portion of the pension benefit obligation that is fully funded, is 103.2% for the County. A funded ratio of 100% or more indicates that the pension benefit obligation is fully funded, and the plan has no amortization period.

E. TREND INFORMATION

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Historical trend information is available in a separately issued TCDRS report. The following schedule illustrates the trend information for plan years ended December 31, 1989 through December 31, 1991:

<u>Plan Year</u>	<u>Net Assets Available for Benefits as a Percentage of Pension Benefit Obligation</u>	<u>Unfunded (Assets in Excess of) Pension Benefit Obligation as a Percentage of Covered Payroll</u>	<u>Employer Contributions as a Percentage of Annual Covered Payroll</u>
1989	89.1%	19.8%	7%
1990	101.9%	(3.1%)	7%
1991	103.2%	(5.4%)	7%

**HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 1993 AND FEBRUARY 29, 1992**

F. POST EMPLOYMENT BENEFITS

In addition to providing the pension benefits described herein, the County provides certain post-employment health care and life insurance benefits for retired employees. In accordance with the Personnel Regulations adopted by Commissioners Court, all County employees may become eligible for these benefits after 10 years of service with the County and upon reaching age 60, or after 30 years of service. The County pays 100% of the cost of medical plan and life insurance coverage for retirees. There were no post-employment benefits paid during fiscal year 1993 or 1992 to the Toll Road Authority since it has no retirees.

NOTE 7. DEFERRED COMPENSATION PLAN

The County offers all of its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their current salary until future years. The deferred compensation plus accumulated interest is not available to the employees until termination, retirement, death or an unforeseeable emergency. Such plan is recorded in an agency fund of the County.

The County funds all amounts of compensation deferred under the plan through investments in fixed and variable rate annuity contracts underwritten by Aetna Casualty and Life Insurance Company and PEBSCO Securities Corporation. Such investments and all related earnings thereon are solely the property of the County, subject to the claims of its general creditors. Participants' rights under the plan are considered those of a general creditor and are equal to the fair market value of the participants' deferred account. To date, these plan assets have only been used to pay deferred compensation amounts to employees.

The County is not responsible for losses under the plan but does have the duty of exercising due care for plan assets as expected of an ordinarily prudent investor. The County believes that it is unlikely it will use the assets to satisfy the claims of general creditors in the future.

Investments are managed by the plan's trustee under one of six investment options or a combination thereof. The choice of the investment option(s) is made solely by the participants.

NOTE 8. CONTRIBUTED CAPITAL

During fiscal year 1993, contributed capital increased by \$414,618. The increase is due to a transfer from the County's general fixed asset account group of a right-of-way parcel valued at \$301,595, which was used as consideration in a right-of-way transaction. The remaining \$113,023 is related to the reimbursement from an internal service fund for the Henry Road Vehicle Maintenance Facility. In fiscal year 1992, contributed capital increased by \$226,046 as a result of the initial reimbursement for the Henry Road Vehicle Maintenance Facility.

NOTE 9. COMMITMENTS AND CONTINGENCIES

The Toll Road is committed under a multiyear lease agreement for toll collecting and accounting equipment, including maintenance. As of February 28, 1993, the Toll Road's obligation for such annual rental payments is estimated as follows:

<u>Fiscal Year</u>	
1994	\$2,603,364
1995	2,603,364
1996	1,735,576

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Rent expense for fiscal year 1993 and 1992 was \$2,075,949 and \$1,424,743, respectively.

The Toll Road Project is involved in lawsuits and other claims in the ordinary course of operations. Although the outcome of such pending lawsuits and other claims are not presently determinable, the resolution of these matters is not expected to have a materially adverse effect on the financial condition of the Toll Road Project.

NOTE 10. FUND DEFICIT BALANCE

The Toll Road has an accumulated deficit of \$301,855,056, which has resulted from cumulative extraordinary losses on bond refundings of \$111,885,912, initial operating losses and net interest expense of \$93,535,185, which was funded with bond proceeds in accordance with the bond indentures and depreciation expense of \$96,433,959.

NOTE 11. INTERFUND LOANS

During the year the Toll Road loaned \$20,000,000 to the General Fund for approximately two months. Interest revenue received for the loans was \$131,611.

**HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS UNDER
BOND ORDINANCES FOR THE YEAR ENDED FEBRUARY 28, 1993**

	<u>Capital Projects</u>	<u>Special Contingency</u>	<u>Revenue</u>	<u>Operations and Maintenance</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, BEGINNING	<u>\$103,399,438</u>	<u>\$25,174,474</u>	<u>\$3,072,184</u>	<u>\$626,168</u>
RECEIPTS:				
Customer deposits	-	-	395,101	-
Operating revenues	-	-	67,324,767	-
Interest received	3,587,375	2,287,870	235,331	-
Reimbursements	26,313	-	23,760	68,629
Other receivables	-	-	-	-
Gain or (loss) on investments	4,230,313	95,002	-	-
Proceeds from bond refunding	7,181,927	-	-	-
Total Receipts	<u>15,025,928</u>	<u>2,382,872</u>	<u>67,978,959</u>	<u>68,629</u>
DISBURSEMENTS:				
Principal payments	-	-	-	-
Interest payments	-	-	-	-
Proceeds from bond refunding	46,029,335	-	-	-
Construction costs	199,692	-	-	-
Engineering costs	1,484,954	-	-	65,006
Right of way	2,231,041	-	-	-
Equipment additions	-	-	-	55,634
Operations and maintenance	-	-	-	9,394,012
Administration	3,141,370	-	2,345	5,186,732
Total Disbursements	<u>53,086,392</u>	<u>-</u>	<u>2,345</u>	<u>14,701,384</u>
INTERFUND TRANSFERS IN (OUT):				
Construction fund	-	430,793	(15,805)	-
Special contingency fund	(430,793)	-	-	-
Revenue fund	15,805	-	-	14,030,458
Operations and maintenance fund	-	-	(14,030,458)	-
Tax bond debt service fund	(4,515,533)	-	(15,486,333)	-
Tax bond debt reserve	-	-	-	-
Revenue bond debt service fund	(19,638,095)	(2,632,055)	(8,148,527)	-
Revenue bond debt reserve	-	-	-	-
Renewal and replacement fund	(100,000)	-	(29,904,347)	-
Total Transfers	<u>(24,668,616)</u>	<u>(2,201,262)</u>	<u>(67,585,470)</u>	<u>14,030,458</u>
Amortization	<u>(240,119)</u>	<u>(185,854)</u>	<u>1,858</u>	<u>-</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, ENDING	<u>\$40,430,239</u>	<u>\$25,170,230</u>	<u>\$3,465,186</u>	<u>\$23,871</u>

Debt Service Bonds

Tax Bond	Tax Bond Reserve	Revenue Bond	Revenue Bond Reserve	Office Building	Renewal and Replacement	Total
<u>\$4,879,295</u>	<u>\$20,179,301</u>	<u>\$3,537,368</u>	<u>\$57,520,805</u>	<u>\$667,145</u>	<u>\$ -</u>	<u>\$219,056,178</u>
-	-	-	-	-	-	395,101
-	-	-	-	134,130	-	67,458,897
221,737	1,552,917	356,987	5,143,969	27,097	689,020	14,102,303
-	-	-	-	64	-	118,766
30,170	-	-	-	-	-	30,170
-	337,516	-	-	-	-	4,662,831
<u>88,610,340</u>	<u>-</u>	<u>372,836,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>468,629,217</u>
<u>88,862,247</u>	<u>1,890,433</u>	<u>373,193,937</u>	<u>5,143,969</u>	<u>161,291</u>	<u>689,020</u>	<u>555,397,285</u>
1,192,690	-	-	-	-	-	1,192,690
19,457,306	-	37,280,298	-	-	-	56,737,604
88,342,727	-	370,948,786	-	-	-	505,320,848
-	-	-	-	-	-	199,692
-	-	-	-	-	-	1,549,960
-	-	-	-	-	-	2,231,041
-	-	-	-	-	-	55,634
-	-	-	-	96,492	-	9,490,504
<u>802,938</u>	<u>844</u>	<u>1,238</u>	<u>14,268</u>	<u>16,383</u>	<u>-</u>	<u>9,166,118</u>
<u>109,795,661</u>	<u>844</u>	<u>408,230,322</u>	<u>14,268</u>	<u>112,875</u>	<u>-</u>	<u>585,944,091</u>
4,515,533	-	19,638,095	-	-	100,000	24,668,616
-	-	2,632,055	-	-	-	2,201,262
15,486,333	-	8,148,527	-	-	29,904,347	67,585,470
-	-	-	-	-	-	(14,030,458)
-	(1,920,111)	-	-	-	-	(21,921,977)
<u>1,920,111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,920,111</u>
-	-	-	(4,467,929)	-	-	(34,886,606)
-	-	4,467,929	-	-	-	4,467,929
-	-	-	-	-	-	(30,004,347)
<u>21,921,977</u>	<u>(1,920,111)</u>	<u>34,886,606</u>	<u>(4,467,929)</u>	<u>-</u>	<u>30,004,347</u>	<u>-</u>
<u>(23,959)</u>	<u>(82,327)</u>	<u>-</u>	<u>(135,229)</u>	<u>-</u>	<u>(184,175)</u>	<u>(849,805)</u>
<u>\$5,843,899</u>	<u>\$20,066,452</u>	<u>\$3,387,589</u>	<u>\$58,047,348</u>	<u>\$715,561</u>	<u>\$30,509,192</u>	<u>\$187,659,567</u>