

***Toll Road Enterprise Fund
of Harris County, Texas***

*Financial Statements As of February 29, 2000 and
February 28, 1999 and for the Years Then Ended
and Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

County Judge Robert Eckels and
Members of Commissioner's Court
of Harris County, Texas:

We have audited the accompanying balance sheets of the Toll Road Authority Enterprise Fund of Harris County, Texas (the "Authority") as of February 29, 2000 and February 28, 1999, and 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 (the "County"). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 represent only the Authority's and are not intended to present fairly the financial position of Harris County, Texas, and the results of its operations and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of February 29, 2000 and February 28, 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2000 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Deloitte & Touche LLP

August 11, 2000

HARRIS COUNTY, TEXAS

TOLL ROAD ENTERPRISE FUND

BALANCE SHEETS, FEBRUARY 29, 2000 AND FEBRUARY 28, 1999

ASSETS	2000	1999
RESTRICTED ASSETS (Note 3):		
Cash and cash equivalents (Note 2)	\$ 33,385,496	\$ 6,968,088
Investments (Note 2)	332,610,939	334,004,935
Accrued interest receivable	3,274,127	4,081,863
Accounts receivable and contributions due from TxDOT	41,852	24,453
Due from other funds	387,471	
Prepays	<u>10,079,045</u>	<u>978,089</u>
Total current restricted assets	<u>379,778,930</u>	<u>346,057,428</u>
PROPERTY:		
Roads, bridges and rights-of-way	1,342,316,998	1,279,787,023
Construction work in progress (Note 4)	596,432	26,092,385
Building	2,612,656	2,612,656
Land	366,091	366,091
Equipment	7,064,086	5,541,856
Less accumulated depreciation	<u>(329,083,902)</u>	<u>(288,888,758)</u>
Property, net	<u>1,023,872,361</u>	<u>1,025,511,253</u>
NOTE RECEIVABLE (Note 10)	13,500,000	13,500,000
DEFERRED CHARGES, NET OF AMORTIZATION	16,692,680	17,574,299
TOTAL ASSETS	<u><u>\$ 1,433,843,971</u></u>	<u><u>\$ 1,402,642,980</u></u>

See notes to financial statements.

LIABILITIES AND FUND DEFICIT	2000	1999
CURRENT LIABILITIES - Payable from restricted assets (Note 3):		
Vouchers payable and accrued liabilities	\$ 4,217,087	\$ 4,668,113
Current portion of long-term debt (Note 5)	33,667,461	30,540,482
Current portion of accrued interest payable (Note 5)	13,051,541	12,360,094
Current portion of obligation under capital lease (Note 8)	538,324	554,647
Deferred revenue	8,069,343	6,767,926
Accrued payroll and compensated absences	1,248,423	884,779
Retainage payable	1,255,914	616,762
Due to other funds	665,101	
Customer deposits	6,145,458	4,702,297
	<u>68,858,652</u>	<u>61,095,100</u>
NONCURRENT LIABILITIES:		
Long-term debt (Notes 3 and 5):		
Senior lien revenue bonds (net of unamortized discounts of \$12,909,324 and \$13,365,847 in 1999 and 1998, respectively)	706,160,540	717,830,676
Tax bonds (net of unamortized premiums of \$93,715,826 and \$97,641,832 in 1999 and 1998, respectively)	862,974,253	889,523,625
Deferred amount on refunding	(150,816,833)	(158,991,316)
Accrued interest payable (Note 5)	94,786,335	83,860,088
Obligation under capital lease (Note 8)	1,072,186	1,658,119
Compensatory time payable	242,059	188,435
	<u>1,514,418,540</u>	<u>1,534,069,627</u>
Total noncurrent liabilities	<u>1,514,418,540</u>	<u>1,534,069,627</u>
Total liabilities	<u>1,583,277,192</u>	<u>1,595,164,727</u>
FUND DEFICIT:		
Contributed capital	108,977,302	108,977,302
Accumulated deficit (Note 9)	(258,410,523)	(301,499,049)
	<u>(149,433,221)</u>	<u>(192,521,747)</u>
Total fund deficit	<u>(149,433,221)</u>	<u>(192,521,747)</u>
TOTAL LIABILITIES AND FUND DEFICIT	<u>\$ 1,433,843,971</u>	<u>\$ 1,402,642,980</u>

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

**STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT
FOR THE YEARS ENDED FEBRUARY 29, 2000 AND FEBRUARY 28, 1999**

	2000	1999
OPERATING REVENUE -		
Toll revenue	<u>\$ 198,282,272</u>	<u>\$ 180,108,358</u>
OPERATING EXPENSES:		
Salaries	15,159,400	13,614,018
Materials and supplies	903,797	593,018
Services and fees	17,109,027	12,259,442
Utilities	1,046,852	1,028,354
Transportation and travel	138,317	193,322
Depreciation	<u>40,226,629</u>	<u>40,271,413</u>
Total operating expenses	<u>74,584,022</u>	<u>67,959,567</u>
INCOME FROM OPERATIONS	<u>123,698,250</u>	<u>112,148,791</u>
NONOPERATING REVENUES:		
Interest revenue	19,129,432	19,531,823
Gain on sale of investments and cash equivalents	-	93,114
Other	<u>259,224</u>	<u>202,028</u>
Total nonoperating revenues	<u>19,388,656</u>	<u>19,826,965</u>
NONOPERATING EXPENSES:		
Interest expense	99,110,457	101,940,831
Amortization expense	881,620	883,663
Loss on disposal of fixed assets	6,303	
Other	<u>-</u>	<u>46,807</u>
Total nonoperating expenses	<u>99,998,380</u>	<u>102,871,301</u>
NET INCOME	43,088,526	29,104,455
ACCUMULATED DEFICIT, BEGINNING OF YEAR	<u>(301,499,049)</u>	<u>(330,603,504)</u>
ACCUMULATED DEFICIT, END OF YEAR	<u><u>\$ (258,410,523)</u></u>	<u><u>\$ (301,499,049)</u></u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29, 2000 AND FEBRUARY 28, 1999**

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 123,698,250	\$ 112,148,791
Adjustments to operations:		
Depreciation	40,226,629	40,271,413
Other nonoperating revenues (expenses)	259,224	155,221
Changes in assets and liabilities:		
Increase in due from other funds	(387,471)	
Increase in other assets	(9,118,355)	(844,137)
(Decrease) increase in vouchers payable	(451,026)	3,680,066
Increase in customer deposits	1,443,161	1,608,558
Increase in accrued payroll and compensated absences	363,644	225,109
Increase (decrease) in retainage payable	639,152	(103,258)
Increase in deferred revenue	1,301,417	2,067,572
Increase in due to other funds	665,101	
Increase in compensatory time payable	53,624	146
	<u>158,693,350</u>	<u>159,209,481</u>
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES -		
Loan to General Fund of Harris County		<u>(13,500,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction of capital assets	(22,427,412)	(21,431,206)
Acquisition of rights-of-ways	(12,694,637)	
Purchase of equipment	(1,560,017)	(304,279)
Principal paid on bonds	(30,540,481)	(21,433,038)
Interest paid on bonds	(85,664,910)	(86,255,861)
Principal paid on obligation under capital lease	(602,256)	(525,030)
Interest paid on obligation under capital lease	(117,383)	(139,242)
Capital contributed		<u>(5,988)</u>
	<u>(153,607,096)</u>	<u>(130,094,644)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(601,053,886)	(437,080,939)
Proceeds from sale/maturity of investments	606,342,361	396,021,542
Interest received	16,042,679	18,658,569
	<u>21,331,154</u>	<u>(22,400,828)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,417,408	(6,785,991)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>6,968,088</u>	<u>13,754,079</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 33,385,496</u>	<u>\$ 6,968,088</u>

See notes to financial statements.

HARRIS COUNTY, TEXAS

TOLL ROAD ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 29, 2000 AND FEBRUARY 28, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Harris County Toll Road Authority (the "Authority") was created by Harris County, Texas, (the "County") by order of Commissioner's Court on September 13, 1983, with the Commissioner's Court designated as the governing body and the operating board of the Authority. The Authority is a department of the County and is charged with overseeing the acquisition, construction, improvement, operation and maintenance of the County toll road facilities (the "Toll Road Project"). The Commissioner's 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 and acquisition of the Jesse H. Jones Toll Bridge, now referred to as the "Sam Houston Ship Channel Bridge" (the "Toll Roads") have been financed with a combination of unlimited tax and subordinate lien revenue bonds and senior lien revenue bonds. When all of 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 County purchased the Sam Houston Ship Channel Bridge (the "Bridge") on May 5, 1994. The County issued \$232,326,713 in Toll Road Unlimited Tax and Subordinate Lien Revenue Bonds to pay for the costs of acquiring the Bridge and a portion of Beltway 8 East approaching and spanning the Houston Ship Channel from the Texas Turnpike Authority. In conjunction with the acquisition of the Bridge, the Texas Department of Transportation ("TxDOT") agreed to fund the lesser of 50% or \$90,000,000 of the Authority's total construction costs eligible for Federal Aid reimbursement. As of February 29, 2000, the Authority had been paid \$86,221,447 by TxDOT.

Basis of Accounting - The Authority, a proprietary fund type, is accounted for using the 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. The Authority applies all Government Accounting Standards Board ("GASB") pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Investments - State statutes authorize the Authority to invest in fully collateralized or insured time deposits, direct debt securities of the United States or its Agencies, investment grade commercial paper, money market mutual funds and fully collateralized repurchase agreements. County policy requires that 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. The margin requirement for all repurchase agreements is that market value must be at least 101% of the purchase price. 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.

During fiscal year 1999, the Authority adopted the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" ("GASB No. 31"), which requires that certain investments and external investment pools be reported at fair value. The Authority's adoption of GASB No. 31 did not have a material impact on its financial position or result in material changes in the Authority's equity. Accordingly, no restatement of accounts reported in prior years has been considered necessary.

All investments are recorded at fair value based on quoted market prices as of February 29, 2000, with the difference between the purchase price and market price being recorded as interest income.

Fixed Assets - Fixed assets in excess of \$1,000 for the Authority are capitalized. Fixed assets are stated at historical cost or estimated fair market value at the date of purchase. 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 4 to 30 years. Roads and buildings are depreciated over a 30-year useful life. Computer equipment and vehicles are depreciated over an estimated useful life of 4 years, while all other equipment is depreciated over an estimated useful life of 10 years.

The Authority 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. Commencing October 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 \$1,911,968 during fiscal year 2000 and increased the cost of assets by \$0 during fiscal year 1999.

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

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

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

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

The County has reinsurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the fiscal years ended February 29, 2000 and February 28, 1999 was \$500,000 per occurrence. No claims settled during the last three fiscal years have exceeded this coverage.

Through the County, the Authority provides medical, dental, vision and basic life and disability insurance to eligible employees and retirees. The Authority pays the full cost of employee and retiree coverage and 50% of the cost of dependent premiums. The disability insurance will pay up to 50% of an employee's salary for two years with an employee option to extend the benefits period to age 65 and increase the percentage to 60%.

The Authority's group insurance premiums, as well as employee payroll deductions for premiums for dependents and optional coverages, are paid into the County's Risk Management Internal Service Fund, which in turn makes disbursements to contracted insurance providers based on monthly enrollment and premium calculations.

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

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

Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 480 sick leave hours. Unused sick leave benefits are not paid at termination. Employees with more than one year of service accrue from two to four weeks of vacation 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. The compensatory time balance for nonexempt employees may not exceed 240 hours. Hours in excess of the 240-hour maximum must be paid to the nonexempt employee at the rate of one-and-a-half times the regular rate. 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. 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. Compensatory time is carried forward indefinitely. Accordingly, a liability for compensatory time earned has been recorded.

As of February 29, 2000 and February 28, 1999, \$610,964 and \$594,844, respectively, have been recorded for future compensated absences.

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.

Bond Refunding Losses - The difference between the reacquisition price and the net carrying amount of refunded debt is deferred and amortized in a manner that is systematic and rational over the remaining life of the old or new debt, whichever is shorter.

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

Reclassifications - Certain reclassifications have been made to the prior year financial statements and to the comparative notes for consistency with the current year presentation.

2. CASH AND INVESTMENTS

The carrying amount of the Authority's deposits was \$2,946,064 and \$5,177,115 as of February 29, 2000 and February 28, 1999, respectively. The bank balances as of February 29, 2000 and February 28, 1999 were \$170,622 and \$2,247,707, respectively, and were covered by federal depository insurance or collateralized with securities held by the County's agent in the County's name.

At fiscal year end, investments consisted of U.S. government securities, commercial paper, municipal bonds and money market mutual funds. The investments are categorized to give an indication of level of risk, with Category 1 being the lowest risk and Category 3 the highest risk. The credit risks are as follows: (1) insured or registered, or securities held by the Authority's agent in the Authority's name; (2) uninsured or unregistered, with securities held in the trust department of the Authority's counterparty in the Authority's name; or (3) uninsured or unregistered, with securities held at the Federal Reserve or other third party in the account of the Authority's counterparty.

The Authority's investments were categorized by risk level for fiscal years 2000 and 1999 as follows:

	2000	1999
Category 1	\$360,849,530	\$333,773,686
Category 2	-	-
Category 3	-	-
Subtotal	360,849,530	333,773,686
Uncategorized money market mutual funds	2,200,841	2,022,222
Total	<u>\$363,050,371</u>	<u>\$335,795,908</u>

Fair value amounts for investments for fiscal years ended 2000 and 1999 are as follows:

	Fair Value	
	2000	1999
U.S. government securities	\$ 248,282,439	\$ 217,034,931
Commercial paper	40,166,339	19,046,069
Municipal bonds	72,400,752	97,692,686
Money market mutual funds	2,200,841	2,022,222
	<u> </u>	<u> </u>
Total	<u>\$ 363,050,371</u>	<u>\$ 335,795,908</u>

During fiscal year 1999, the Authority sold investments and cash equivalents which resulted in net gains of \$93,114.

3. RESTRICTED ASSETS

Certain assets of the Authority 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 Authority has pledged under the bond indentures to purchase certain amounts of debt service fund surety policies to satisfy certain reserve fund requirements. During fiscal years 2000 and 1999, the Authority was in compliance with these covenants.

4. DEFERRED CONSTRUCTION COSTS

Construction of the airport connector, which runs generally parallel to and north of Greens Road and connects directly with the JFK Boulevard access to the airport was completed and opened for operation on January 28, 2000. All capitalized costs recorded as construction work in progress have been transferred to the airport connector fixed asset. The capitalized costs for the project include engineering, design fees and capitalized interest and bond costs.

5. TAX AND REVENUE BONDS

The Authority has financed the Toll Road Projects 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. Long-Term Debt

The Authority's long-term debt consisted of the following as of February 29, 2000:

Type of Debt	Stated Interest Rate Range	Outstanding, February 29, 2000	Principal*	
			Less Current Maturities (To Be Paid in FY 2000-01)	Long-Term Maturities, February 29, 2000
Senior Lien Revenue Bonds	3.85% - 8.10%	\$ 718,285,540	\$ 12,125,000	\$ 706,160,540
Tax Bonds	3.85% - 38.89%	884,516,714	21,542,461	862,974,253
		<u> </u>	<u> </u>	<u> </u>
Total - Toll Road Fund Debt		<u>\$ 1,602,802,254</u>	<u>\$ 33,667,461</u>	<u>\$ 1,569,134,793</u>

B. Long-Term Debt - Changes in FY 1999-2000 and 1998-99

Changes in the Authority's long-term debt for fiscal years as shown below were as follows:

	Principal*				Outstanding, February 29, 2000
	Outstanding, February 28, 1999	Issued	Paid	Amortization Net Premium Discount	
Senior Lien Revenue Bonds	\$ 728,030,676	\$	\$(10,200,000)	\$ 454,864	\$ 718,285,540
Tax Bonds	909,864,107		(20,340,482)	(5,006,911)	884,516,714
Total - Toll Road Fund Debt	\$1,637,894,783	\$ -	\$(30,540,482)	\$(4,552,047)	\$1,602,802,254

	Principal*				Outstanding, February 28, 1999
	Outstanding, February 28, 1998	Issued	Paid	Amortization Net Premium Discount	
Senior Lien Revenue Bonds	\$ 734,929,153	\$	\$(7,355,000)	\$ 456,523	\$ 728,030,676
Tax Bonds	927,868,151		(14,078,038)	(3,926,006)	909,864,107
Total - Toll Road Fund Debt	\$1,662,797,304	\$ -	\$(21,433,038)	\$(3,469,483)	\$1,637,894,783

* Includes unamortized premium and accrued compound interest bonds

Issue	Interest Rate Range (%)	Term		Special Conditions	Outstanding Balance, February 29, 2000
		Issue	Maturity		
Senior Lien Revenue Bonds (*)					
Series 1992-A (portion refunded in 1996 and 1997)	5.70 - 6.50	1992	2017	Current Interest Bonds, Maturity 1992-2017	\$ 56,685,000
Series 1992-B (portion refunded in 1996 and 1997)	5.70 - 6.62	1992	2017	Current Interest Bonds, Maturity 1992-2017	10,590,000
Series 1994	4.00 - 5.50	1994	2021	Current Interest Bonds, Maturity 1994-2021	581,995,000
Series 1994-A (portion refunded in 1997)	5.30 - 6.38	1994	2024	Current Interest Bonds, Maturity 1994-2024	16,425,000
Series 1997	3.85 - 5.30	1997	2024	Current Interest Bonds, Maturity 1997-2024	65,045,000
Total Senior Lien Revenue Bonds					730,740,000
Less: Unamortized Discount					(12,454,460)
Net Senior Lien Revenue Bonds					\$718,285,540

C. Outstanding Bonded Debt - February 29, 2000 - Pertinent Information by Issue

Issue	Interest Rate Range (%)	Term		Special Conditions	Outstanding Balance, February 29, 2000
		Issue	Maturity		
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	\$ 1,356,374
Series 1985 (portion refunded in 1988 and 1992)	9.15 - 10.00	1985	2004	Compound Interest Bonds, payable upon maturity 1996-2004	1,493,266
Refunding bonds, Series 1985F (portion refunded in 1991)	13.58 - 13.59	1985	2003	Compound Interest Bonds, payable upon maturity 1992-2003	3,073,957
Refunding Bonds, Series 1991	18.89 - 21.95	1991	2014	Compound Interest Bonds, payable upon maturity 2001-2008	6,095,000
	5.85 - 7.00	1991	2014	Current Interest Rate Bonds - maturity 1995-2014	133,970,000
Refunding Bonds, Series 1992A (portion refunded in 1997)	11.60 - 14.70	1992	2015	Compound Interest Bonds, payable upon maturity 1997-2008	9,670,000
	6.50	1992	2015	Current Interest Rate Bonds - maturity 2009-2015	34,005,000
Refunding Bonds, Series 1992B (portion refunded in 1997)	14.37 - 16.10	1992	2016	Compound Interest Bonds, payable upon maturity 1997-2008	1,937,488
	6.50	1992	2015	Current Interest Rate Bonds - maturity 2010-2015	9,225,000
Series 1994-A (portion refunded in 1997)	5.70 - 6.30	1994	2007	Compound Interest Bonds, payable upon maturity 2001-2007	30,881,713
	6.10 - 8.00	1994	2024	Current Interest Rate Bonds - maturity 2008-2024	59,925,000
Series 1994B-H	Variable	1994	2020	Variable Interest, optional redemption, mandatory redemption 1999-2020	344,000,000
Series 1995A	27.6 - 38.89	1995	2012	Compound Interest Bonds, payable upon maturity 2002-2012	1,500,000
	3.85 - 6.00	1995	2001	Current Interest Bonds - maturity 1996-2001	6,090,000
Refunding Bonds, Series 1997	3.90 - 5.25	1997	2013	Compound Interest Bonds, payable upon maturity 1998-2013	2,190,000
	5.00 - 5.13	1997	2024	Current Interest Bonds - maturity 2014-2024	150,395,000
Total Tax Bonds					795,807,798
Plus: Unamortized Premium					88,708,916
Net Tax Bonds					884,516,714
Total - Toll Road Bonded Debt					<u>\$1,602,802,254</u>

(*) Portions of all Senior Lien Revenue Bond Series were refunded by Series 1994.

D. Covenants and Conditions

The Senior Lien Revenue Bonds are payable from operating revenues generated from the Toll Roads. The Tax Bonds are secured by and payable from a pledge of the County's unlimited ad valorem taxing power and are also 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 Authority has covenanted to assess a maintenance tax to pay project expenses if revenues, after paying debt service, are insufficient. The Authority 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 aggregate debt service on all Senior Lien Revenue Bonds accruing in such fiscal year. The 1.25 revenue coverage covenant went into effect during fiscal year 1994. The revenue coverage ratio was 4.33 and 4.11 as of February 29, 2000 and February 28, 1999, respectively.

The Series 1994B-H Tax Bonds are subject to purchase on the demand of the holder, at any time prior to the conversion from the variable rate, at a price equal to principal plus accrued interest. The variable interest rate is determined weekly by Bankers Trust Securities Corporation and J.P. Morgan Securities Inc., and is based upon current yields on short-term tax-exempt obligations. The Authority'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 Authority has a standby agreement to purchase such bonds.

The terms of the standby agreement require the Authority to redeem the purchased bonds upon the expiration or termination (by events of default) of the standby agreement. The expiration date of the standby agreement is October 1, 2001. The fee for the standby agreement is 0.10% per annum paid annually on the outstanding principal balance. The stated interest rates for the standby agreement are prime rate for the first 90 days and prime rate plus 1% for outstanding advances after the first 90 days. The prime rate was 8.75% as of February 29, 2000. The following are the debt service requirements of Series 1994B-H Tax Bonds assuming the standby bank has purchased all of the demand bonds as of February 29, 2000 at the ceiling interest rate of 15%:

Fiscal Year	Principal	Interest	Total
2001		\$51,600,000	\$ 51,600,000
2002	<u>\$344,000,000</u>	<u>30,100,000</u>	<u>374,100,000</u>
Total	<u>\$344,000,000</u>	<u>\$81,700,000</u>	<u>\$425,700,000</u>

Upon termination of the standby agreement for events of default other than the failure of the Authority to make payments on the bonds or any other Authority bonds payable from ad valorem taxes or due to bankruptcy proceedings, the Authority 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 semi-annual installments of principal and interest based on the purchased bond rate. The Authority has not defaulted on any of its bonded debt obligations.

E. Debt Service Requirements

Total interest expense was \$95,488,020 and \$96,683,002 for fiscal years 2000 and 1999, respectively. The following are the debt service requirements for bonds payable (assuming a variable rate of 5.5% for the 1994B-H Tax Bonds):

Fiscal Year	Principal**	Interest	Total
2001	\$ 33,667,461	\$ 91,729,102	\$ 125,396,563
2002	34,554,815	101,828,793	136,383,608
2003	32,009,965	104,607,167	136,617,132
2004	37,688,831	108,155,033	145,843,864
2005	39,109,679	107,491,777	146,601,456
2006-2020	<u>1,349,517,048</u>	<u>868,204,615</u>	<u>2,217,721,663</u>
Total	<u>\$1,526,547,799</u>	<u>\$1,382,016,487</u>	<u>\$2,908,564,286</u>

**Does not include unamortized premiums and discounts

F. Unissued Authorized Bonds

As of February 29, 2000, the County has voter authorization to issue additional unlimited tax bonds for the Toll Road Projects in the amount of \$17,673,000.

G. Defeasance of Debt

In prior years, the Authority has defeased certain 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 financial statements. As of February 29, 2000 and February 28, 1999, the outstanding principal balance of these defeased bonds was \$563,762,000 and \$705,788,000, respectively.

6. RETIREMENT PLAN

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 502 non-traditional defined benefit pension plans. TCERS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar-year basis. The CAFR is available upon written request from the TCERS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCERS since 1991, the County has had the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective January 1, 1995, the County adopted an annually determined contribution rate plan, for which the employer contribution rate is

actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period which began January 1, 1995 using the entry age actuarial cost method. Monthly contributions by the County are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 2000 is 10.07%. The contribution rates for calendar years 1999 and 1998 were 10.16% and 8.73%, respectively.

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

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

Funding Policy

The County has elected the annually determined contribution rate ("ADCR") plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The County contributed using actuarially determined rate of 10.16% for the months of the accounting year in 1999, and 10.07% for the months of the accounting year in 2000.

The contribution rate payable by the employee members for 1999 and 2000 is the rate of 7% as adopted by Commissioner's Court. The employee contribution rate and the employer contribution rate may be changed by Commissioner's Court within the options available in the TCDRS Act.

Annual Pension Cost

For the County's accounting year ended February 29, 2000, the annual pension cost for the TCDRS plan for its employees was \$42,746,939, and the actual contributions were \$42,746,939.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 1997 and December 31, 1998, the basis for determining the contribution rates for calendar years 1999 and 2000. The December 31, 1998 report is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/96	12/31/97	12/31/98
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period in years	22	20	20
Asset Valuation Method	Amortized cost for bonds, no equities	Amortized cost for bonds, no equities	Long-term appreciation with adjustments
Actuarial Assumption:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases (1)	6.2%	5.9%	5.9%
Inflation	4.5%	4.0%	4.0%
Cost of living adjustments	0.0%	0.0%	0.0%
(1) Includes inflation at the stated rate			

Trend Information			
Accounting Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
02/29/2000	\$42,746,939	100%	0
02/28/1999	\$37,977,561	100%	0

Schedule of Funding Progress			
Actuarial Valuation Date	12/31/96	12/31/97	12/31/98
Actuarial Value of Assets	\$867,259,177	\$954,603,458	\$1,041,568,976
Actuarial Accrued Liability (AAL)	\$993,882,842	\$1,113,130,572	\$1,207,495,129
Unfunded Actuarial Accrued Liability (UAAL)	\$126,623,665	\$158,527,114	\$165,926,153
Funded Ratio	87.26%	85.76%	86.26%
Annual Covered Payroll (Actuarial)	\$383,566,063	\$401,289,828	\$420,646,130
UAAL as Percentage of Covered Payroll	33.01%	39.50%	39.45%

7. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits described herein, the County provides certain retirement health care and life insurance benefits for retired employees. County regulations allow all County employees to become eligible for these benefits after meeting the service and retirement age requirements of the County's retirement plan. These requirements, which were modified effective January 1, 1996, require 30 years of service, or 8 years of service and 60 years of age, or years of service plus age equal to 75 or more. The County pays 100% of the cost of medical and life insurance coverage for retirees. The Authority recognizes expenses for retirement benefits as paid, which during fiscal years 2000 and 1999 approximated \$40,420 and \$36,082, respectively. Presently, eight retirees qualify for retirement benefits.

8. COMMITMENTS AND CONTINGENCIES

The Authority is committed under a capital lease agreement expiring on December 31, 2003 for toll collecting and accounting equipment. The amount of property recorded under the capital lease obligation net of accumulated depreciation was approximately \$2.2 million as of February 29, 2000. As of February 29, 2000, the Authority's obligation for such annual payments is estimated as follows:

Fiscal Year	Principal	Interest
2001	\$ 538,324	\$ 70,599
2002	618,984	45,295
2003	453,202	12,767
	<u>\$1,610,510</u>	<u>\$ 128,661</u>

Rent expense for fiscal years 2000 and 1999 was \$0 and \$96,861, respectively.

The Authority 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 Authority.

9. FUND DEFICIT

The Authority has an accumulated deficit of \$258,410,523, which has resulted from initial project expenses, interest expense and depreciation. This does not include contributed capital of \$108,977,302.

10. INTERFUND LOAN

On April 7, 1998, the Commissioner's Court approved an interfund loan from the Toll Road Enterprise Fund to the Harris County General Fund in the amount of \$13.5 million to finance the payment of the settlement for a judgment against the County. A promissory note was executed requiring a three-year maturity with principal payable at maturity and an option to extend the note for an additional two years with principal due at the final maturity date. The principal shall bear interest at a variable rate equal to the monthly weighted yield of the Authority's investment portfolio. Interest will be based on a 360-day year/simple interest payable on each one-year anniversary date of the note.

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