Toll Road Enterprise Fund of Harris County, Texas

Financial Statements As of February 28, 2003 and for the Year Then Ended and Independent Auditor's Report

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS

BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 28, 2003

TABLE OF CONTENTS

Deloitte & Touche LLP
Suite 2300
333 Clay Street
Houston, Texas 77002-4196

Tel: (713) 982-2000
Fax: (713) 982-2001
www.deloitte.com

Deloitte & Touche

Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the Toll Road Authority Enterprise Fund of Harris County, Texas (the "Toll Road Authority") as of February 28, 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the basic financial statements referred to above present only the Toll Road Authority's and are not intended to present fairly the financial position and results of operations of Harris County, Texas, 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 Toll Road Authority as of February 28, 2003, and its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Toll Road Authority implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38, *Certain Financial Statement Note*

Disclosures, which changes note disclosure requirements for governmental entities, for the year ended February 28, 2003.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the GASB. The supplementary information is the responsibility of the County's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 10, 2003

This section of the Toll Road Enterprise Fund of Harris County (the "Authority") financial statements presents management's discussion and analysis ("MD&A") of the financial performance of the Authority during the fiscal year ended February 28, 2003.

The Authority is an enterprise fund of Harris County, Texas (the "County") and is included in the County's financial statements. This analysis presents information about the Authority and the operations and activities of Authority only and is not intended to provide information about the entire County.

Because fiscal year ended February 28, 2003 is the first year in which the Authority implemented the provisions of Government Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" ("GASB Statement No. 34"), this MD&A does not provide comparisons with the previous year. Future reports will provide such comparisons.

FINANCIAL HIGHLIGHTS

- The total net assets of the Authority at February 28, 2003 is $36,965,294. Of this amount, $255,638,683 deficit is invested in capital assets, net of related debt, $21,309,668 is restricted for capital projects, $82,178,461 is restricted for debt service and $189,115,848 is restricted for other purposes. The restricted net assets for other purposes may be used as follows: (1) payment or provision for payment of senior indebtedness payable as a first charge on revenues; (2) to pay project expenses; (3) to establish and maintain an operating reserve equal to two months' project expenses; (4) to pay any senior indebtedness not a first charge on the revenues; (5) to make transfer to the debt service fund as required by the tax indenture; and (6) the balance, if any, shall be transferred to the surplus fund.

- The Authority issues debt to finance an ongoing capital improvement program. During fiscal year 2002-2003, the Authority issued $42,260,000 in refunding tax bonds and $397,520,000 in revenue bonds. Debt service for such bonds is financed through the proceeds from bonds, including the interest earned thereon and through toll revenue. Note 8 provides further details on the new debt issuances.

- On April 30, 2002, Harris County Commissioners Court approved a tri-party agreement and interest bearing loan/advance of $15,000,000 to Fort Bend County and the Fort Bend County Toll Road Authority, for design, land acquisition, and administrative costs associated with the Westpark Extension and Fort Bend Parkway Toll Road projects. The principal and interest on this loan has been repaid subsequent to the fiscal year end of February 28, 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of 1) Financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows and 2) Notes to the basic financial statements.

Financial Statements for the Authority include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. Since the Authority is an enterprise fund, the financial statements of the Authority are presented on the flow of economic resources measurement focus and use the accrual basis of accounting. Funds are a self-balancing set of accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate finance-related legal compliance. The Authority is used to account for the acquisition, operation and maintenance of toll roads within Harris County.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 12 through 29 of this report.

This year is the first year the Authority has applied GASB Statement No. 34. Net assets may serve over time as useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $36,965,294 as of the fiscal year ended February 28, 2003.

Harris County Toll Road Enterprise Fund
Statement of Net Assets
February 28, 2003
(Amounts in thousands)

Current restricted assets	$ 673,145
Capital assets, net	1,181,674
Other non-current assets	19,030
Total assets	1,873,849
Current liabilities - restricted	130,540
Non-current liabilities	1,706,344
Total liabilities	1,836,884
Net assets:	
Invested in capital assets, net of related debt	(255,639)
Restricted net assets	292,604
Total net assets	$ 36,965

The largest portion of the Authority's current fiscal year net assets represents restricted net assets, which are subject to external restrictions on how they may be used.

Another portion of the Authority's current fiscal year net assets reflects its investments in capital assets (e.g. land, improvements, buildings, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The main use of these capital assets is to provide services to citizens; consequently, these assets are not available for future spending. Although the

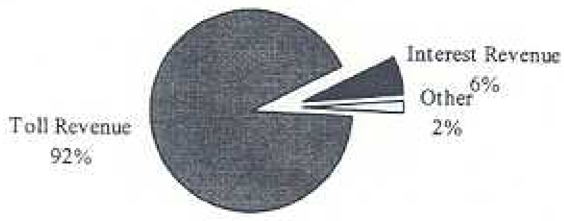
Authority's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table indicates changes in net assets for the Authority:

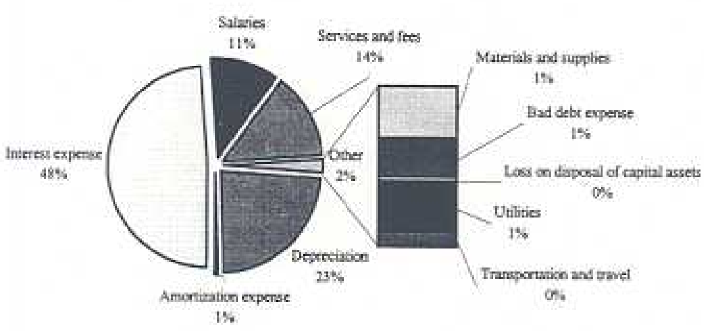
Harris County Toll Road Enterprise Fund
Statement of Activities
(In Thousands)
For the Year Ended February 28, 2003

Revenues:	
Operating revenues:	
Toll revenue	$ 244,171
Nonoperating Revenues:	
Interest revenue	15,928
Other	124
Total revenues	260,223
Operating Expenses:	
Salaries	20,457
Materials and supplies	1,321
Services and fees	25,066
Utilities	1,193
Transportation and travel	299
Depreciation	42,376
Nonoperating Expenses:	
Interest expense	88,161
Amortization expense	911
Bad debt expense	943
Loss on disposal of capital assets	100
Total expenses	180,827
Excess (deficiency) before special items and transfers	79,396
Contributions	5,048
Operating transfer out	(20,058)
Change in net assets	64,386
Net assets (liabilities) - beginning	(27,421)
Net assets - ending	$ 36,965

REVENUES BY SOURCE
Year ended February 28, 2003



EXPENSES
Year Ended February 28, 2003



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of February 28, 2003, amounted to $1,181,674,001 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the Authority's investment in capital assets for the current period was 11 percent.

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

- The Authority capitalized cost of $114,009,727 during fiscal year 2003 for the construction of the Westpark Tollway.
- The Authority began several construction projects, including the Hardy Downtown Extension, Fort Bend Parkway Extension, construction of additional lane capacity for Sam Houston Tollway, Riley Fuzzel Road, Sam Houston Tollway South Mainline Toll Plaza and Administration Office parking lots, Hardy Toll Road pavement repair and/or additions from

Greens Road to FM 1960, Hardy Screen Wall, and the Dairy Ashford Center renovation. Costs capitalized in 2003 for these projects were $16,828,967.

- During 2003, the Authority recognized construction costs in the amount of $1,598,823 related to the direct connector between Eastbound Beltway 8 and Northbound Hardy Toll Road, and $7,516,667 related to SH 249 Direct Connectors partnered with the Texas Department of Transportation.

For further information regarding capital assets and construction in progress, see Notes 6 and 7 to the financial statements.

Long-term debt

At February 28, 2003, the Authority had total long-term debt (bonds, net of deferred amount on refunding) outstanding of $1,615,003,030. During 2003, the Authority issued $42,260,000 Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2002 and $397,520,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2002 to finance construction, acquisition, improvement and administrative cost of the toll road; to refund certain Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds and certain Toll Road Senior Lien Revenue Refunding Bonds; to refund all Toll Road Senior Lien Revenue Commercial Paper Notes, Series E and to pay cost of issuance. Refer to Note 8 to the financial statements for further detail on the Authority's long-term debt.

<u>ECONOMIC FACTORS</u>

- On August 26, 2003, Harris County Commissioners Court approved a toll rate increase. The rate increase is based on the findings of a comprehensive traffic and revenue study that began in the spring of 2003.

- On July 15, 2003, $321,500,000 Harris County, Texas, Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds Series 2003 was issued. The Refunding Bonds covered by this sale were Adjustable/Fix Rate Bond Series 1994-B, C, D, E, F, G and H, with maturity dates in August of 2015 and 2020. The Bonds issued are to provide long-term fixed rate financing for the projects initially financed with the Refunded Bonds and to pay costs of such issuance and refunding.

- In March 2003, Harris County Commissioners Court approved a cooperative agreement between Harris County, the Texas Department of Transportation and the Federal Highway Administration that allows for four managed lanes to be designed, built, operated, monitored, and maintained within the limits of Interstate Highway 10 from west of State Highway 6 to Interstate Highway 610. The total distance is approximately 12 miles and usage will be known as value pricing/ congestion pricing or peak period pricing, which will entail fees or tolls for usage in the four managed lanes. Harris County's financial commitment of $237,500,000 will span nine payments over a five-year period. The first installment payment of $37,500,000 was paid to the Texas Department of Transportation in May 2003.

- On May 28, 2003, Harris County Commissioners Court approved an interlocal agreement between the Harris County Toll Road Authority and the City of Houston for mobility improvements in the Richmond/West Alabama corridor to improve the flow of traffic into and away from the Westpark Tollway. On June 16, 2003, the County paid $2.6 million, the County's total contribution, of an estimated $9 million project.

- On May 23, 2003, Harris County Commissioners Court approved an agreement for the purchase and sale of specific railroad rights of way from the Houston Belt and Terminal Railway for the Hardy Toll Road Extension Project in Precinct One of Harris County at a cost of $2,740,000.

- In April 2003, Harris County Commissioners Court approved an agreement with AECOM Enterprises in the amount of $900,000 for a Preliminary Feasibility Study for the development of a Toll Road in Brazoria County.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor's Office, 1001 Preston, Suite 800, Houston, Texas 77002.

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
FEBRUARY 28, 2003

ASSETS	
Current restricted assets: (Note 4)	
Cash and cash equivalents (Note 2)	$ 67,716,760
Investments (Note 2)	546,786,914
Receivables, net (Note 3)	8,104,720
Note Receivable (Note 15)	28,500,000
Other (Note 5)	22,036,420
Total current restricted assets	673,144,814
Non-current assets:	
Capital Assets: (Note 6)	
Land and rights-of-way	202,845,362
Construction work in progress (Note 7)	206,878,634
Roads and bridges	1,212,467,506
Building and equipment	14,729,189
Accumulated depreciation	(455,246,690)
Deferred charges, net of amortization	19,030,249
Total non-current assets	1,200,704,250
Total assets	1,873,849,064
LIABILITIES	
Current liabilities - payable from restricted assets: (Note 4)	
Vouchers payable and accrued liabilities	23,691,754
Retainage payable	5,241,189
Due to primary government	2,396,004
Compensatory time payable	331,502
Other (Note 10)	23,830,850
Bonds payable (Note 8)	36,683,830
Accrued interest payable	38,364,737
Total current liabilities	130,539,866
Non-current liabilities:	
Compensatory time payable	82,876
Bonds payable (Note 8)	1,755,999,900
Deferred amount on refunding	(140,996,870)
Accrued interest payable	91,257,998
Total non-current liabilities	1,706,343,904
Total liabilities	1,836,883,770
NET ASSETS	
Invested in capital assets, net of related debt	(255,638,683)
Restricted for capital projects	21,309,668
Restricted for debt service	82,178,461
Restricted - unallocated	189,115,848
Total net assets	$ 36,965,294

See notes to financial statements.

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED FEBRUARY 28, 2003

OPERATING REVENUE	
Toll revenue	$ 244,170,745
OPERATING EXPENSES	
Salaries	20,457,289
Materials and supplies	1,321,222
Services and fees	25,066,081
Utilities	1,193,174
Transportation and travel	299,431
Depreciation	42,375,509
Total operating expenses	90,712,706
Operating income	153,458,039
NONOPERATING REVENUES	
Interest revenue	15,928,241
Other	124,163
Total nonoperating revenues	16,052,404
NONOPERATING EXPENSES	
Interest expense	88,161,087
Amortization expense	911,022
Bad debt expense	942,683
Loss on disposal of fixed asset	100,033
Total nonoperating expenses	90,114,825
Income before operating transfer out	79,395,618
Contributions	5,048,100
Operating transfer out (Note 16)	(20,057,744)
Change in net assets	64,385,974
Net assets (liabilities), beginning of year	(27,420,680)
Net assets, end of year	$ 36,965,294

See notes to financial statements.

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from toll	$ 239,263,707
Payment to Employees	(20,685,856)
Payment to Vendors	(14,286,145)
Internal Activity - Net Payments to Other Funds	2,381,420
Other Receipts (Payments)	(92,928)
Net cash provided by operating activities	206,580,198
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Loan to Fort Bend County	(15,000,000)
Operating transfer to other funds	(20,057,744)
Net cash used for noncapital financing activities	(35,057,744)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(154,335,178)
Principal and escrow paid on capital debt	(333,177,091)
Interest paid on capital debt	(84,654,236)
Proceeds from capital debt	527,458,168
Other payments	(4,061,290)
Net cash used for capital and related financing activities	(48,769,627)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(683,883,990)
Proceeds from sale and maturity of investments	602,698,061
Interest received	19,430,303
Net cash used for investing activities	(61,755,626)
Net increase in cash and cash equivalents	60,997,201
Cash and cash equivalents, beginning	6,719,559
Cash and cash equivalents, ending	$ 67,716,760
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 153,458,039
Adjustments to operations:	
Depreciation	42,375,509
Other nonoperating revenues (expenses)	(818,520)
Changes in assets and liabilities:	
Receivables, net	(3,935,617)
Other assets	(4,919,940)
Vouchers payable and accrued liabilities	8,564,036
Retainage payable	4,753,759
Due to primary government	2,352,682
Other payables	4,702,849
Compensatory time payable	47,401
Net cash provided by operating activities	$ 206,580,198
Noncash operating, capital and related financing and investing activities	
Capital contribution received from other government	$ 5,048,100
Decrease in the fair market value of investments	(3,450,938)

See notes to financial statements.

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 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 and fund 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 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 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 8, 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 Toll Road Unlimited Tax and Subordinate Lien Revenue Bonds to pay the costs of acquiring the Bridge spanning the Houston Ship Channel from the Texas Turnpike Authority and to complete construction of a portion of Beltway 8 East approaching the Bridge. 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 28, 2003, the Authority had been paid $86,221,447 by TxDOT.

During fiscal year 2001, the Authority began construction of the Westpark Tollway, which will allow traffic to flow from State Highway 6 at the western terminus of the project, eleven miles to the intersection of Richmond Avenue and Post Oak Boulevard at the eastern terminus of the project. The total estimated cost of the project is $326,000,000.

Implementation of New Standards - In the current year, the County implemented the following new standards:

Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB 34"), establishes accounting and financial reporting standards for state and local governments in order to enhance the understandability and usefulness of the financial reports to citizenry, legislative and oversight bodies, and investors and creditors.

GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus and Amendment of GASB Statements No. 21 and No. 34*, revises the escheat reporting requirements, limits the topics discussed in MD&A, eliminates capitalization of construction-period interest requirement on capital assets used in government activities, and further clarifies provisions of GASB 34.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, modifies, establishes, and rescinds certain financial statement disclosure requirements.

The implementation of these standards had the following impact in the accompanying financial statements:

- Presentation of Management's Discussion and Analysis
- Presentation and classification of net assets
- Reporting certain additional footnote disclosures.

The following table shows beginning net assets restated for the effects of the implementation of GASB 34:

Accumulated deficit, March 1, 2002, as previously reported	$(139,397,982)
Contributed capital	111,977,302
Net assets (liabilities), March 1, 2002, full accrual	$ (27,420,680)

Basis of Presentation and Measurement Focus- The accompanying basic financial statements have been prepared on the full accrual basis of accounting as prescribed by the GASB. Full accrual accounting uses a flow of economic resources measurement focus. Under this measurement focus, the Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Authority presents its financial statements in accordance with GASB 34 guidance for governments engaged in business-type activities. Accordingly, the basic financial statements and required supplementary information ("RSI") of the Authority consist of Management's Discussion and Analysis ("MD&A"), Statement of Net Assets, Statement of Revenues, Expenses and Change in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements.

Enterprise Fund – The financial statements of the Authority are presented on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recognized in the period earned. The Authority's operating revenues are derived from charges to users of the Toll Roads in the County. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, the unrestricted resources to the extent they are needed.

Expenses are recognized in the period incurred. The Authority's operating expenses consist primarily of direct charges attributable to the operations of the Authority, including depreciation. Interest expense and other similar charges not directly related to the Authority's operations are reported as non-operating expenses.

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.

All investments are recorded at fair value based upon quoted market prices as of the Authority's fiscal year end, with the difference between the purchase price and market price being recorded as interest income.

Capital Assets – Capital assets include land, buildings, equipment and infrastructure that are used in the Authority's operations and benefit more than a single fiscal year. Infrastructure assets are long-lived assets that are generally stationary in nature and can typically be preserved for a significantly greater number of years than other capital assets. Infrastructure assets of the Authority include roads, bridges and right-of-way.

Capital assets of the Authority are defined as assets with individual costs of $5,000 or more and estimated useful lives in excess of one year. Exceptions to the $5,000 capitalization threshold are as follows: all land is capitalized, regardless of historical cost; the threshold for capitalizing buildings is $100,000 and the threshold for infrastructure ranges from $25,000 to $250,000, depending on the asset.

All capital 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 3 to 50 years. Roads are depreciated over a 30-year useful life. Equipment is depreciated over 3 to 20 years, depending on the type. Buildings are depreciated over 45 years. Prior to fiscal year 2003, buildings were depreciated over 30 years. The change in estimated useful lives of building and equipment resulted from the County's adoption of GASB 34 and is being accounted for on a prospective basis. In the current year, depreciation expense decreased by $163,340 due to this change in estimate.

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. Prior to fiscal year 2001, 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. Since fiscal year 2001, interest had been capitalized based on the weighted average accumulated expenses multiplied by the weighted average interest rate. Such capitalization increased the total cost of assets constructed by the Toll Road Project by $2,049,534 during fiscal year 2003.

Contributions – Federal, State or other government contributions to the Toll Road project are recognized based on the project percentage of completion.

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 year ended February 28, 2003 was $750,000 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 upon 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 leave, 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 28, 2003, $1,055,763 has 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.

2. CASH AND INVESTMENTS

The carrying amount of the Authority's deposits was $1,980,554 as of February 28, 2003. The bank balance as of February 28, 2003 of $63,258 was 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 the fiscal year ended February 28, 2003 as follows:

	Categories 1	2	3	Fair Value
U.S. Government Securities	$ 534,296,915	$ -	$ -	$534,296,915
Commercial Paper	31,793,799	-	-	31,793,799
Municipals	12,388,214	-	-	12,388,214
Subtotal	$ 578,478,928	$ -	$ -	$578,478,928
Money market mutual funds				34,044,192
Total				$612,523,120

3. RECEIVABLES

Receivables at February 28, 2003, consist of the following:

Credit cards	$ 841,197
Interest	2,623,158
Due from primary government	635,875
Other	9,743
Customers	5,137,825
Allowance for doubtful accounts	(1,143,078)
Total	$8,104,720

4. 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 as follows:

Restricted for:	
Operations and maintenance	$348,906,412
Debt Service	120,543,198
Construction	203,695,204
Total	$673,144,814

The Authority purchased surety policies to satisfy certain reserve fund requirements. During the fiscal year ended February 28, 2003, the Authority was in compliance with these covenants.

5. OTHER ASSETS

Other assets of the Authority are comprised of the following as of February 28, 2003:

Prepaid surety expense	$ 796,713
Advance funding for direct connector project	1,776,889
Advance funding for Westpark project	2,696,247
Advance funding for SH249 direct connector	7,438,666
Advance funding for Beltway 8 project	6,817,505
EZ tag inventory	2,510,400
Total	$ 22,036,420

Advance payments were given to TxDOT for the Authority's funding participation for these projects. These advances were amortized and transferred to construction work in progress based on the project percentage of completion.

EZ tags are recorded to inventory based on the number of tags as of February 28, 2003 multiplied by the weighted average unit price per tag.

6. CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2003 was as follows:

	Balance March 1, 2002	Additions/ Transfers	Adjustments/ Transfers	Balance February 28, 2003
Capital assets not depreciated:				
Land	$ 366,091	$ -	$ -	$ 366,091
Right of way	191,985,713	10,493,558	-	202,479,271
Construction in progress	62,429,585	139,954,184	-	202,383,769
System Integration in progress	-	4,494,865	-	4,494,865
Total capital assets not depreciated	254,781,389	154,942,607	-	409,723,996
Assets being depreciated:				
Buildings	2,612,656	2,210,802	-	4,823,458
Equipment	7,934,048	2,260,588	(288,905)	9,905,731
Roads and bridges	1,212,498,225	10,864	(41,583)	1,212,467,506
Total capital assets being depreciated	1,223,044,929	4,482,254	(330,488)	1,227,196,695
Less accumulated depreciation for:				
Buildings	(692,129)	(72,225)	-	(764,354)
Equipment	(4,556,318)	(1,270,272)	188,872	(5,637,718)
Roads and bridges	(407,811,606)	(41,033,012)	-	(448,844,618)
Total accumulated depreciation	(413,060,053)	(42,375,509)	188,872	(455,246,690)
Total capital assets being depreciated, net	809,984,876	(37,893,255)	(141,616)	771,950,005
Total capital assets, net	$ 1,064,766,265	$ 117,049,352	$ (141,616)	$ 1,181,674,001

7. CONSTRUCTION WORK IN PROGRESS

Construction of the Westpark Tollway, which will allow traffic to travel from State Highway 6 through the intersection of Richmond Avenue and Post Oak Boulevard, began in fiscal year 2001. The capitalized costs for the project include engineering, design fees and capitalized interest. Capitalized costs related to the Westpark Tollway were $161,459,524 as of February 28, 2003.

The Authority began several construction projects during the prior year. These projects are Hardy Extension, Barker Cypress, Ft Bend Tollway, Beltway 8 Tollway and construction of additional lane capacity for Sam Houston. During the fiscal year 2002, the Authority began several projects. These projects are Riley Fuzzel Road, South Sam Parking lot, Pavement repair from Greens Road to FM1960, SH249 Direct Connector, Hardy Screen Wall and Westpark Center renovation. The capitalized costs for the projects include engineering, design fees and capitalized interest. As of February 28, 2003 the following are life-to-date capitalized project costs:

Hardy extension	$ 2,668,536
Barker Cypress thoroughfare	287,703
Fort Bend Tollway	3,711,724
Beltway 8 Tollway	1,166,753
Sam Houston additional lane capacity	10,434,135
Riley Fuzzel Road	2,284,000
Sam South parking lot	305,721
Pavement Repair from Greens Road to FM 1960	88,659
SH249 direct connector	7,516,667
Hardy screen wall	226,794
Westpark Center renovation	36,468
Total	$28,727,160

The County entered into an agreement with TxDOT to construct a direct connector between Eastbound Beltway 8 and Northbound Hardy Toll Road. According to the agreement, TxDOT will contribute $6,000,000 to fund the project. As of February 28, 2003, the project was approximately 81% complete; accordingly the Authority has recognized 81% of TxDOT's contribution. In addition, the Authority recognized construction costs related to the direct connector of $7,363,484 as of February 28, 2003.

8. TAX BONDS, REVENUE BONDS AND COMMERCIAL PAPER

The Authority has financed the Toll Road Projects with a combination of unlimited tax and subordinate lien revenue bonds, senior lien revenue bonds, and commercial paper. 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

Changes in the Authority's Long-Term Debt for fiscal years as shown below were as follows:

	Stated Interest Rate	Principal* Outstanding February 28, 2002	Issued	Paid	Amortization/ Adjustment Net Premium Discount	Outstanding February 28, 2003	Due Within Year
Revenue Bonds	3.85% - 8.10%	$ 692,146,670	$397,520,000	$(115,630,000)	$13,002,210	$ 987,038,880	$17,530,000
Tax Bonds	3.85% - 38.89%	832,661,418	42,260,000	(59,364,966)	(9,911,603)	805,644,850	19,153,830
Total - Toll Road Fund Debt		$1,524,808,088	$439,780,000	$(174,994,966)	$ 3,090,607	$1,792,683,730	$36,683,830

The tax bonds above include $321,500,000 of Series 1994B-H Unlimited Tax and Subordinate Lien Bonds which carry a variable interest rate with mandatory redemption in 1999 through 2020.

- Includes unamortized premium and accrued compound interest bonds.

B. Outstanding Bonded Debt – February 28, 2003 – Pertinent Information by Issue

Issue	Interest Rate Range (%)	Term Issue	Maturity	Special Conditions	Outstanding Balance, February 28, 2003
Senior Lien Revenue Bonds					
Series 1994	4.00 - 5.50	1994	2021	Current Interest Bonds, Maturity 1994-2021	$ 518,635,000
Series 1994A (portion refunded in 1997 and 2002	5.30 - 6.38	1994	2005	Current Interest Bonds, Maturity 1994-2024	5,100,000
Series 1997	3.85 - 5.30	1997	2024	Current Interest Bonds, Maturity 1997-2024	64,205,000
Series 2002	5.00 - 5.40	2002	2032	Current Interest Bonds, Maturity 1997-2032	397,520,000
Total Senior Lien Revenue Bonds					$ 985,460,000
Plus Unamrotized Premium, Net					1,578,880
Net Senior Lien Revenue Bonds					$ 987,038,880
Unlimited Tax and Subordinate Lien Bonds (Tax Bonds)					
Seried 1985 (portion refunded in 1988 and 1992)	10.0	1985	2004	Compound Interest Bonds, payable upon maturity 1996-2004	$ 1,493,266
Refunding bonds, Series 1985F (portion refunded in 1991)	13.6	1985	2003	Compound Interest Bonds, payable upon maturity 1992-2003	467,258
Refunding Bonds, Series 1991	18.89 - 25.23	1991	2008	Compound Interest Bonds, payable upon maturity 2001-2008	4,395,000
Refunding Bonds, Series 1992A (portion refunded in 1997 and 2002)	11.80 - 14.70	1992	2008	Compound Interest Bonds, payable upon maturity 1997-2008	6,820,000
Refunding Bonds, Series 1992B (portion refunded in 1997 and 2002)	14.37 - 16.10	1992	2008	Compound Interest Bonds, payable upon maturity 1997-2008	1,277,488
Series 1994A (portion refunded in 1997)	5.80 - 6.30	1994	2007	Compound Interest Bonds, payable upon maturity 2001-2007	20,522,546
Series 1994A (portion refunded in 1997)	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 redemtion 1999-2020	321,500,000
Series 1994A	27.6 - 38.9	1995	2012	Compound Interest Bonds, payable upon maturity 2002-2012	1,200,000
Refunding Bonds, Series 1997	17.58 - 49.07	1997	2013	Compound Interest Bonds, payable upon maturity 1998-2013	1,650,000

continued

Unlimited Tax and Subordinate Lien Bonds (Tax Bonds)					
Refunding Bonds, Series 1997	5.0 - 5.1	1997	2024	Current Interest Bonds - maturity 2014-2024	150,395,000
Refunding Bonds, Series 2001	6.0	2001	2014	Current Interest Bonds - maturity 2009-2014	120,740,000
Refunding Bonds, Series 2002	4.0 - 5.3	2002	2015	Current Interest Bonds - maturity 2009-2014	42,260,000
Total Tax Bonds					$ 732,645,558
Plus Unamortized Premium					72,999,292
Net Tax Bonds					$ 805,644,850
Total - Toll Road Bonded Debt					$ 1,792,683,730

C. 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 5.16 as of February 28, 2003.

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 September 23, 2003. The Series 1994B-H was refunded in July 2003. See Note 18 for further information. 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 4.25% as of February 28, 2003. The following are the debt service requirements of Series 1994B-H Tax Bonds at the actual interest rate of 0.97% as of February 28, 2003.

Fiscal Year	Principal	Interest	Total
2004	$321,500,000	1,821,639	$323,321,639

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.

D. Debt Service Requirements

Total interest expense was $88,161,087 for the fiscal year. 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
2004	36,683,830	126,382,088	163,065,918
2005	39,294,679	120,296,997	159,591,676
2006	40,765,251	119,228,696	159,993,947
2007	44,367,906	116,508,959	160,876,865
2008	46,893,227	114,784,663	161,677,890
2009-2013	412,375,665	427,212,978	839,588,643
2014-2018	515,815,000	217,760,878	733,575,878
2019-2023	365,375,000	97,019,544	462,394,544
2024-2028	108,625,000	39,331,028	147,956,028
2029-2033	107,910,000	14,364,826	122,274,826
Total	$1,718,105,558	$1,392,890,657	$3,110,996,215

E. Unissued Authorized Bonds

As of February 28, 2003, the County has voter authorization to issue additional unlimited tax bonds for the Toll Road Projects in the amount of $17,673,000.

F. Defeasance of Debt

In the current year and 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 28, 2003, the outstanding principal balance of these defeased bonds was $800,927,000.

G. Refunding

On November 19, 2002, the Authority issued $42,260,000 Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2002 and $397,520,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2002 to finance construction, acquisition, improvement and administrative cost of the toll road; to refund certain Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds and certain Toll

Road Senior Lien Revenue Refunding Bonds; to refund all Toll Road Senior Lien Revenue Commercial Paper Notes, Series E and to pay cost of issuance. In connection with this refunding, the Authority deposited $150,767,056 of proceeds in the irrevocable trust to defease the refunded bonds.

The refundings of Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds and Toll Road Senior Lien Revenue Refunding Bonds resulted in a difference between the reacquisition price and net carrying amount of the old debt of $6,392,122 and $2,401,233, respectively. This difference is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to operations through the fiscal year 2032. The refundings resulted in a decrease in cash flow requirements of $19,510,937 and an economic gain of $14,252,734.

The bonds refunded were as follows:

Refunding Issues	Refunded Series	Refunded Amount
Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2002	1992A	$34,005,000
	1992B	9,225,000
		$43,230,000
Senior Lien Revenue Refunding Bonds, Series 2002	1992A	$50,685,000
	1992B	9,465,000
	1994A	8,350,000
	1994	31,255,000
		$99,755,000

H. Commercial Paper

In addition to the outstanding long-term debt of the Authority, the Commissioners Court has established a Commercial Paper program secured by and payable from the Trust Estate which includes a gross pledge of Revenues of the Toll Road Project. The Commercial Paper program consists of Harris County Toll Road Senior Lien Revenue Notes, Series E in an aggregate principal amount not to exceed $150 million outstanding at any one time. As of February 28, 2003, the Authority has no outstanding Commercial Paper.

The purpose of the Series E Notes is to provide funding for costs of acquiring, constructing and improving Toll Road Project components, funding reserves, paying interest during construction and paying costs of issuance.

The Notes will be offered at par only, will mature in not more than 270 days from the date of issue, and will pay par plus interest at maturity. Interest on the Notes is payable on an actual /365-day basis. The interest on the Notes may not exceed the lesser of 10% per annum or the maximum rate allowed by law. A minimum purchase of $100,000 aggregate principal amount and integral multiples of $1,000 in excess thereof is required.

The Notes will have a maximum maturity date of August 15, 2031 and no Series E Note shall (i) mature after the maximum maturity date, (ii) have a term in excess of 270 days, (iii) have a term beyond the third business day prior to the scheduled expiration date for the credit agreement relating to such Series E Note or (iv) be issue at any time that a "no issuance notice" has been issued by the Credit Provider pursuant to the credit agreement which provides that such Series E Note would not be entitled to the security provided by the credit agreement.

The Toll Road entered into a revolving credit agreement dated as of October 1, 2001 with Dexia Credit Local, whereby Dexia has agreed to advance up to $150 million to the Authority to pay the principal of any or all maturing Series E Notes as necessary for a period through October 27, 2004, which is the date of expiration. For this agreement, the County will be assessed a fee of .125% per annum on the aggregate amount of the commitment. Advances received under the line of credit are payable in full no later than the earlier of 60 days after the date of such advance, unless converted to term loans pursuant to the agreement, or the revolving credit maturity date. The principal amount outstanding for Series E shall be paid three years from the date the term loan is made. Interest is payable monthly during the Term Loan Period at a rate equal to the base rate (which is the higher of (i) the Prime Rate or (ii) the Federal Funds Rate plus one-half of one percent) plus two percent per annum.

The following is a schedule of changes in commercial paper for the year ended February 28, 2003:

Balance Outstanding March 1, 2002	Issued	Retired/ Refunded	Balance Outstanding February 28, 2003	Amount Due Within One Year
$ 73,767,000	$ 76,233,000	$ 150,000,000	$ -	$ -

9. COMPENSATED ABSENCES PAYABLE

Changes in long-term compensated absences for the year ended February 28, 2003 were as follows:

Balance Outstanding March 1, 2002	Earned	Taken/ Paid	Balance Outstanding February 28, 2003	Amount Due Within One Year
$ 366,977	$ 327,955	$ (280,554)	$ 414,378	331,502

10. OTHER PAYABLE

Other payables are comprised of the following as of February 28, 2003:

Customer deposits	$10,590,234
Deferred revenue	13,240,616
Total	$23,830,850

The customer deposits are for the EZ tag deposit and deferred revenues are the customers' prepaid accounts. Toll charges are deducted from the customers' prepaid accounts when incurred.

11. 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 TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 535 non-traditional defined benefit pension plans as of December 31, 2002. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar-year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCDRS 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 employer are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 2003 is 10.31%. The contribution rates for calendar years 2002 and 2001 were 9.86% and 9.95%, respectively.

The plan provisions are adopted by the governing body of the Authority, 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 or 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 determine contribution rate ("ACDR") plan provision 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 9.86% for the months of the accounting year in 2002, and 10.31% for the months of the accounting year in 2003.

The contribution rate payable by the employee members for 2003 and 2002 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 28, 2003, the annual pension cost for the TCDRS plan for its employees, including the Authority, was $56,254,388 and the actual contributions for the Authority were $1,490,118.

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, 2001 and December 31, 2002, the basis for determining the contribution rates for calendar years 2002 and 2003. The December 31, 2002 report is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/00	12/31/01	12/31/02
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period in years	20	20	20
Asset Valuation Method	Long-term appreciation with adjustments	Long-term appreciation with adjustments	Long-term appreciation with adjustments
Actuarial Assumption: Investment return (1) Projected salary increases (1) Inflation Cost of living adjustments (1) Includes inflation at the stated rate	 8.00% 5.5% average 3.5% 0.0%	 8.00% 5.5% average 3.5% 0.0%	 8.00% 5.5% average 3.5% 0.0%

Trend Information			
Accounting Year Ended	Annual Pension Cost	*Percentage of APC Contributed*	Net Pension Obligation
2/28/2003	$56,254,388	100%	0
2/28/2002	$48,448,052	100%	0
2/28/2001	$47,979,693	100%	0

Schedule of Funding Progress			
Actuarial Valuation Date	12/31/00	12/31/01	12/31/02
Actuarial Value of Assets	1,265,141,379	1,380,976,806	1,484,207,932
Actuarial Accrued Liability (AAL)	1,441,046,300	1,578,523,738	1,711,255,341
Unfunded Actuarial Accrued Liability (UAAL)	175,904,921	197,546,932	227,047,409
Funded Ratio	87.79%	87.49%	86.73%
Annual Covered Payroll (Actuarial)	488,879,345	509,600,340	537,764,570
UAAL as Percentage of Covered Payroll	35.98	38.77%	42.22%

12. 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. The authority under which the provision and obligation to contribute were established is the Commissioner's Court. 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 the fiscal year approximated $91,302. Presently, 25 retirees qualify for retirement benefits.

13. COMMITMENTS AND CONTINGENCIES

Leases

The Authority was committed under a capital lease agreement that expired on December 31, 2002 for toll collecting and accounting equipment. The amount of property recorded under the capital lease obligation was $1,059,361, net of accumulated depreciation of $2,792,860 as of February 28, 2003.

Construction Commitments

The Authority is committed under various contracts in connection with the construction of Authority facilities, buildings, and roads of $157,778,246.

Litigation and Claims

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, management of the Authority believes that the resolution of these matters is not expected to have a materially adverse effect on the financial condition of the Authority.

Joint Deposit/Escrow Account

On July 23, 2002, the Commissioners Court approved an agreement for a joint deposit/ escrow account between the Authority and Metro and to deposit $13.8 million in the account. The Authority's construction and operation of toll road facilities within the Westpark Corridor will necessitate Metro's incurring architectural and engineering costs in connection with its future development of its public transit projects in the Westpark Corridor over and above the costs it would otherwise incur if no toll road facilities were constructed in the easements acquired by the Authority. The Authority has agreed to escrow funds to be made available to Metro for payment of such future increased costs.

14. NET ASSETS

RESTRICTIONS

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

15. NOTES RECEIVABLE

On April 7, 1998, the Commissioners 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. In April 2001, the note was extended for two additional years. 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. The Authority recognized $420,045 in interest revenue from the loan for the year ended February 28, 2003.

On April 30, 2002, the Commissioners Court approved a $15 million loan to Fort Bend County for the design, engineering, land acquisition and administrative cost related to the Fort Bend Parkway Toll Road project. A tri-party agreement was executed requiring the principal amount and interest on all funds loaned by the Authority to be reimbursed on the earlier (1) 30 days after the issuance of bonds to pay the construction of the Fort Bend Parkway Toll Road if bonds are sold to finance construction of the Fort Bend Parkway Toll Road, (2) two years from the payment date, or (3) 120 days from the date of termination. The Authority recognized $204,331 in interest revenue from the loan for the year ended February 28, 2003.

16. TRANSFERS

On April 18, 2001, the Commissioners Court approved a $20 million annual allocation for funding of a County thoroughfare program to enhance the traffic flow to current or proposed toll facilities. This allocation is available for each precinct in the equal amount of $5 million.

17. RECENT ACCOUNTING PRONOUNCEMENT – GASB STATEMENT NO. 39, "DETERMINING WHETHER CERTAIN ORGANIZATIONS ARE COMPONENT UNITS" ("GASB NO. 39")

The Government Accounting Standards Board has issued Statement No. 39 ("GASB 39"), Determining Whether Certain Organizations are Component Units, which will be effective for the Authority in the fiscal year ending February 28, 2005. GASB 39 requires state and local governments to report legally separate, tax exempt organizations as discrete component units if they meet the following criteria:

- The economic resources raised and held by the affiliated organization almost entirely is for the benefit of the Authority.
- The Authority is entitled to or has the ability to access the funds raised by the affiliated organization.
- The funds held by the affiliated organization are material to the Authority's financial statements.

Management of the Authority does not believe the implementation of this standard will have a material impact on the Authority's financial statements.

18. SUBSEQUENT EVENTS

On July 30, 2003, the County issued $321,500,000 Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2003 to refund all of the County's outstanding Toll Road Unlimited Tax and Subordinate Lien Revenue Adjustable/Fixed Rate Bonds, Series 1994 B-H, at a redemption price equal to 100% of the principal amount thereof and to pay certain costs incurred in connection with the issuance of the bonds.

The $13.5 million loan to General Fund and $15 million loan to Fort Bend County were paid to the Authority in May 2003 and June 2003, respectively. The nature of these payments is described in Note 15.

******