Harris County Toll Road Authority Enterprise Fund

A Department of Harris County, Texas

Basic Financial Statements

For The Fiscal Year Ended

February 28, 2005

Toll Road Enterprise Fund of Harris County, Texas

Financial Statements As of February 28, 2005 and for the Year Then Ended and Independent Auditors' Report

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS

BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 28, 2005

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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, 2005.

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.

FINANCIAL HIGHLIGHTS

- At the end of the current fiscal year, the total net assets of the Authority were $150,732,249, which represents an increase of $103.1 million from the prior year. The increase was a result of the opening of Westpark Tollway, Fort Bend Tollway, and an interlocal agreement with The North Texas Tollway Authority.

- During fiscal year 2005, the Authority issued $646,985,000 in refunding revenue bonds. Debt service for such bonds is financed through toll revenue. Note 7 to the financial statements provide further details on the new debt issuances.

- On December 17, 2002, 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 ("TxDOT") in May 2003. The next installment of $25,000,000 is due September 1, 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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 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 13 through 27 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $150,732,249 as of the fiscal year ended February 28, 2005 and $47,667,183 as of the fiscal year ended February 29, 2004.

Harris County Toll Road Enterprise Fund
Condensed Statement of Net Assets
February 28, 2005 and February 29, 2004
(Amounts in thousands)

	2005	2004
Current restricted assets	$ 597,885	$ 575,107
Capital assets, net	1,493,107	1,328,146
Other non-current assets	57,039	57,018
Total assets	2,148,031	1,960,271
Current liabilities - restricted	140,624	130,696
Non-current liabilities	1,856,675	1,781,908
Total liabilities	1,997,299	1,912,604
Net assets:		
Invested in capital assets, net of related debt	(378,111)	(358,531)
Restricted net assets	528,843	406,198
Total net assets	$ 150,732	$ 47,667

The largest portion of the Authority's net assets for fiscal year 2005 is restricted net assets, which are subject to external restrictions on how they may be used. The Authority's restricted net assets are for capital projects, debt service and 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.

Another portion of the Authority's net assets for fiscal year 2005 reflects its investments in capital assets (e.g., land, improvements, buildings, equipment, and infrastructure) net of accumulated depreciation less any outstanding related debt used to construct or acquire those assets. The main use of these capital assets is to provide services to citizens; consequently, these assets are not available for future spending. The net assets invested in capital assets deficit balances indicate that the net capital assets are less than the outstanding related debt. 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 Years Ended February 28, 2005 and February 29, 2004

	2005	2004
Revenues:		
Operating revenues:		
Toll revenue	$ 317,712	$ 265,913
Nonoperating Revenues:		
Interest revenue	6,318	10,377
Other	-	714
Total revenues	324,030	277,004
Expenses:		
Operating Expenses:		
Salaries	25,853	23,070
Materials and supplies	2,732	12,322
Services and fees	26,410	24,876
Utilities	1,949	1,518
Transportation and travel	437	345
Depreciation	42,913	42,519
Nonoperating Expenses:		
Interest expense	96,222	101,076
Amortization expense	13,138	1,070
Arbitrage penalty	3,600	-
Bad debt expense	-	6,729
Loss on disposal of capital assets	104	466
Total expenses	213,358	213,991
Income before contributions and transfers	110,672	63,013
Contributions	12,523	15,189
Transfers out	(20,130)	(67,500)
Change in net assets	103,065	10,702
Net assets - beginning	47,667	36,965
Net assets - ending	$ 150,732	$ 47,667

Revenues and Contribution

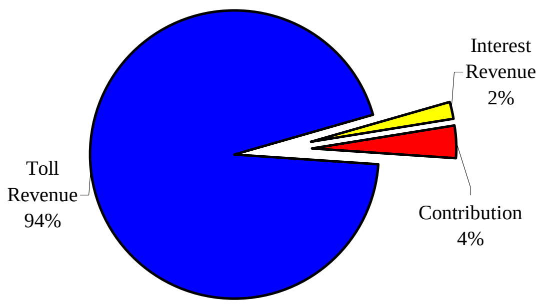
Total revenues and contributions for fiscal year 2005 were $336,552,690, an increase of $44,358,760 (or 15%) in revenues and contribution from fiscal year 2004 of $292,193,930.

The largest revenue source is toll revenue of $317,712,245 or 94% of total revenues and contributions. This was a 3% increase or $51,799,163 from fiscal year 2004. This is due to the opening of Westpark Tollway, Fort Bend Tollway, and an interlocal agreement with The North Texas Tollway Authority.

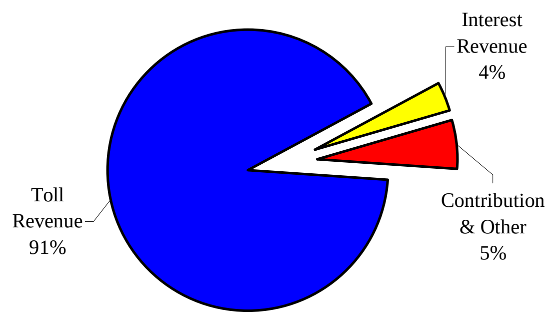
Contributions and other revenues totaled $12,522,506 or 4% of total revenues and contributions. Contributions of $12,522,506 for fiscal year 2005 decreased $2,666,946 compared to fiscal year 2004 contributions of $15,189,452. This is due to a smaller portion of Federal and State shares recognized on toll road projects based on the projects' percentages of completion.

Interest revenue for fiscal year 2005 totaled $6,317,939 or 2% of total revenues. This is a decrease of $4,058,813 from fiscal year 2004 of $10,376,752. The decrease is attributable to lower interest rates and less money in interest bearing accounts.

REVENUES BY SOURCE
Year ended February 28, 2005



REVENUES BY SOURCE
Year ended February 29, 2004



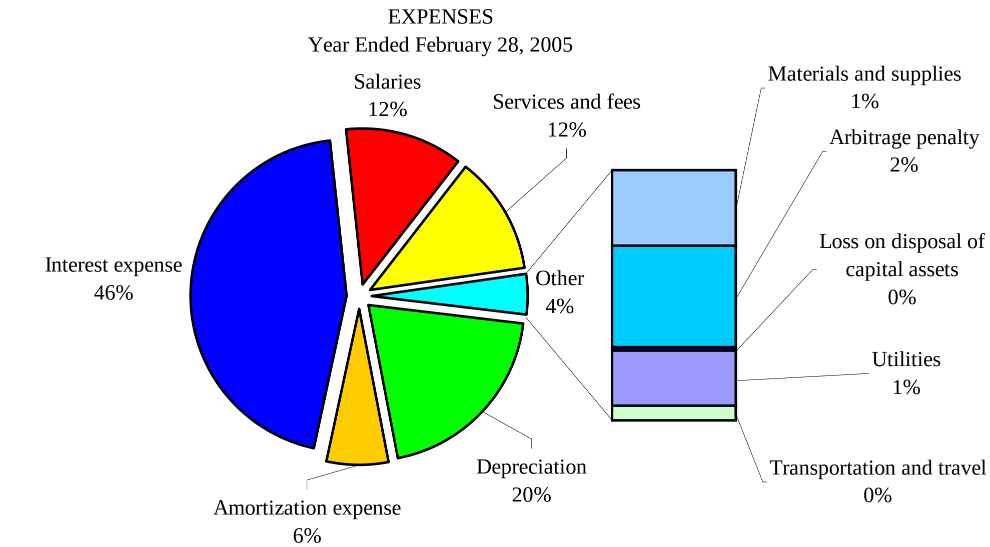
Expenses

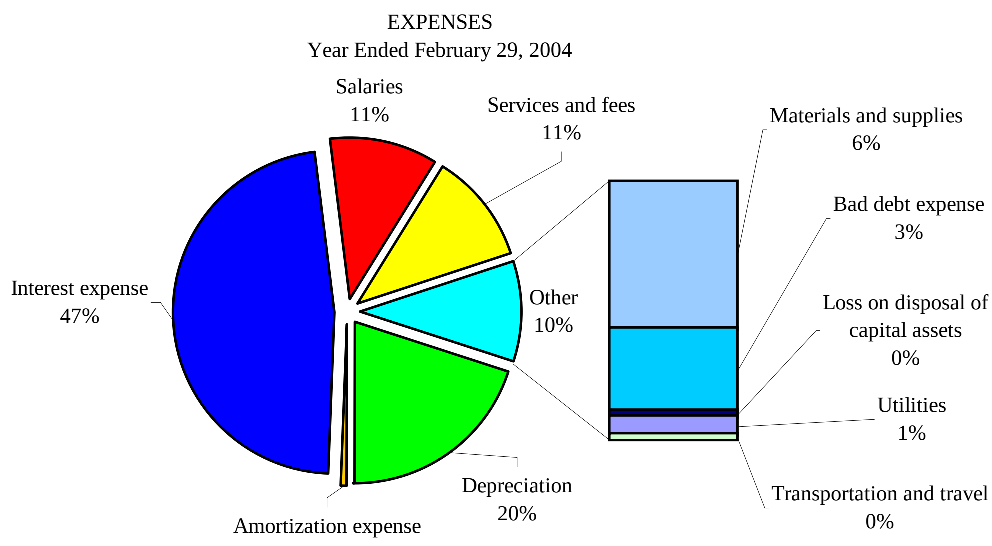
For fiscal year ended February 28, 2005, expenses totaled $213,357,624, a decrease of $634,417 in expenses from fiscal year 2004 of $213,992,041.

Interest expense of $96,222,165 is the Authority's largest expense category at 46% of total expenses. Interest expense reflects the interest and fees on outstanding debt charged in the year.

Other expense of $8,820,960 or 4% of total expenses consists of materials and supplies, arbitrage penalty, loss on disposal of capital assets, utilities, and transportation and travel. This expense category decreased by $12,559,749 from fiscal year 2004 of $21,380,709. The largest amount of the decrease, $9,590,222, was in materials and supplies. The decrease is due to adjustment of EZ tag inventory. The current year had no bad debt expense to report, but did have $3,599,720 recorded as arbitrage penalty. The remaining difference in the other expense category consists of increases in utilities and transportation and travel expenses and a decrease in loss on disposal of capital assets.

The remaining 50% of expenses consisted of salaries (12%), service fees (12%), depreciation (20%) and amortization expense (6%). All of these expense categories were comparable to the prior year, when considering the reclassification of bond loss amortization to amortization expense in the current year.





Transfers Out

On April 18, 2001, the Commissioners Court approved a $20 million annual allocation distributed in the amount of $5 million per precinct, for the funding of non-toll County roads that connect or enhance the traffic flow to toll facilities. The remaining $130,000 that was transferred in 2005 was for payments to Radio Operations fund and Risk Management fund for provided services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets, net of accumulated depreciation as of February 28, 2005 and February 29, 2004, amounted to $1,493,107,460 and $1,328,146,799, respectively. These capital assets include land, buildings, equipment, and infrastructure. The Authority's capital assets increased $164,960,661 or 12.4% over fiscal year 2004.

For further information regarding capital assets, see Note 6 to the financial statements.

	Balance February 28, 2005	Balance February 29, 2004
Business-type Activities:		
Land	$ 366,091	$ 366,091
Right-of-way	241,022,059	233,253,301
Costruction in progress	276,453,448	336,589,620
System integration in progress	12,348,785	8,569,814
Land improvements	694,561	694,561
Other tangible assets	514,250	514,250
Buildings	17,799,468	7,886,328
Equipment	11,083,166	8,975,818
Roads and bridges	1,471,748,408	1,227,607,879
	2,032,030,236	1,824,457,662
Less: Accumulated depreciation	(538,922,776)	(496,310,863)
Totals	$ 1,493,107,460	$ 1,328,146,799

Long-term debt

At the end of the fiscal year, the Authority had total outstanding debt (bonds, net of deferred amount on refunding) of $1,931,982,897. This represents a $88,418,195 increase from last fiscal year. Refer to Note 7 to the financial statements for further detail on the Authority's long-term debt.

	Outstanding at February 28, 2005	Outstanding at February 29, 2004
Business-type Activities:		
Bonds payable	$ 1,878,206,023	$ 1,736,776,059
Commercial paper payable	39,960,000	106,270,000
Judgments payable	13,223,000	-
Compensatory time payable	593,874	518,643
Totals	$ 1,931,982,897	$ 1,843,564,702

ECONOMIC FACTORS

- Additional non-toll highways, roads and streets, or improvements and expansions to existing free highways, roads and streets that may be constructed by the County, TxDOT, the City of Houston or other public entities may adversely affect the usage of the toll road. TxDOT continues to improve and expand IH-45 and US 59. In particular, IH-45 offers free highway competition to the Hardy Toll Road. Improvements over the past few years to IH-45 from its interchange with Sam Houston Tollway-West/North Section/Sam Houston Parkway to FM 1960 have enhanced mobility along that segment of the highway.

- Metro, a regional transit authority, currently operates an extensive bus fleet serving Harris County and all of the City of Houston. Metro offers "park-and-ride" services, which include free automobile parking at suburban Metro lots and bus service to and from Houston's central business district in competition with the Hardy Toll Road. Metro's "park-and-ride" service from its most distant lot near the intersection of IH-45 and FM 1960 to downtown Houston, utilizing IH-45's free "authorized vehicle lane", competes for a portion of the traffic that could otherwise be expected to utilize the Hardy Toll Road.

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, telephone (713)755-4832, or visit the County's website at www.co.harris.tx.us.

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
FEBRUARY 28, 2005

ASSETS	
Current restricted assets:	
Cash and cash equivalents	$ 13,728,940
Investments	563,193,863
Receivables, net	72,538
Accrued interest receivable	2,152,077
Other receivables, net	7,314,941
Inventories	9,093,204
Prepaids and other assets	2,329,298
Total current restricted assets	597,884,861
Non-current assets:	
Capital Assets:	
Land and construction in progress	530,190,383
Other capital assets, net of depreciation	962,917,077
Intangible	37,500,000
Deferred charges, net of amortization	19,538,542
Total non-current assets	1,550,146,002
Total assets	2,148,030,863
LIABILITIES	
Current liabilities - payable from restricted assets:	
Vouchers payable	20,826,525
Accrued payroll and compensated absences	2,104,413
Retainage payable	8,156,421
Customer deposits	13,891,537
Due to primary government	30,607
Due to other units	181,915
Deferred revenue	16,739,398
Short-term note payable	3,860,000
Current portion of long-term liabilities	61,609,609
Total current liabilities	127,400,425
Non-current liabilities:	
Bonds payable	1,816,596,414
Commercial paper payable	39,960,000
Judgements payable	13,223,000
Compensatory time payable	118,775
Total non-current liabilities	1,869,898,189
Total liabilities	1,997,298,614
NET ASSETS	
Invested in capital assets, net of related debt	(378,110,587)
Restricted for capital projects	41,866,048
Restricted for debt service	122,386,518
Restricted for other purposes	364,590,270
Total net assets	$ 150,732,249

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, 2005

OPERATING REVENUE	
Toll revenue	$ 317,712,245
OPERATING EXPENSES	
Salaries	25,852,853
Materials and supplies	2,732,095
Services and fees	26,410,239
Utilities	1,948,440
Transportation and travel	437,235
Depreciation	42,913,450
Total operating expenses	100,294,312
Operating income	217,417,933
NONOPERATING REVENUES	
Interest revenue	6,317,939
Total nonoperating revenues	6,317,939
NONOPERATING EXPENSES	
Interest expense	96,222,165
Amortization expense	13,137,957
Arbitrage penalty	3,599,720
Loss on disposal of capital assets	103,470
Total nonoperating expenses	113,063,312
Income before contributions and transfers	110,672,560
Contributions	12,522,506
Transfers out	(20,130,000)
Change in net assets	103,065,066
Net assets, beginning of year	47,667,183
Net assets, end of year	$ 150,732,249

See notes to financial statements.

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from toll	$ 314,630,679
Payments to employees	(25,616,523)
Payments to vendors	(26,635,879)
Internal activity - net payments to other funds	(738,591)
Net cash provided by operating activities	261,639,686
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(20,130,000)
Net cash used for noncapital financing activities	(20,130,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(169,914,576)
Principal and escrow paid on capital debt	(713,540,601)
Interest paid on capital debt	(116,364,512)
Proceeds from capital debt	775,388,663
Bond issuance cost	(5,024,551)
Net cash used for capital and related financing activities	(229,455,577)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(487,598,681)
Proceeds from sale and maturity of investments	447,495,923
Interest received	11,299,257
Net cash used for investing activities	(28,803,501)
Net change in cash and cash equivalents	(16,749,392)
Cash and cash equivalents, beginning	30,478,332
Cash and cash equivalents, ending	$ 13,728,940
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 217,417,933
Adjustments to operations:	
Depreciation	42,913,450
Changes in assets and liabilities:	
Receivables, net	(5,654,300)
Prepaids and other assets	6,919,663
Inventories	(5,671,498)
Vouchers payable and accrued liabilities	(11,375,877)
Retainage payable	(114,556)
Due to primary government	(738,591)
Other liabilities	15,295,497
Deferred revenue	2,572,734
Compensatory time payable	75,231
Net cash provided by operating activities	$ 261,639,686
Noncash operating, capital and related financing and investing activities	
Capital contribution received from other government	$ 12,522,506
Increase in the fair market value of investments	5,220,188

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 7, has been paid or provided for in a trust fund, the Toll Roads will become a part of the State of Texas Highway System.

Implementation of New Standards **-** In the current year, the Authority did not implement any significant new standards. The following standards will be implemented in future years as noted.

GASB Statement No. 40, *Deposits and Investment Risk Disclosures – an amendment of GASB 3* ("GASB 40"), modifies disclosures to limit required disclosures to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

The Authority will implement GASB 40 in fiscal year 2006.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* ("GASB 42"), establishes standards that define capital asset impairment and specifies how various types of impairment losses will be measured, reported and disclosed. Also, clarifies and establishes reporting and disclosure of all insurance recoveries. GASB 42 will be implemented by the Authority in fiscal year 2006.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 43"), establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.* The Authority will implement GASB 43 in fiscal year 2007.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section – an Amendment of NCGA Statement 1* ("GASB 44"), updates the statistical section requirements to include guidance for all types of state and local governments, improve the understandability, comparability, and usefulness in the statistical section of the CAFR, and assist users in assessing the state or local government's economic condition. GASB 44 will be implemented by the Authority in fiscal year 2007.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* ("GASB 45"), establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The Authority will implement GASB 45 in fiscal year 2008.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB 34* ("GASB 46"), clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. GASB 46 states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing legislation or if legal enforceability is reevaluated. Finally, GASB 46 requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The Authority will implement this statement in fiscal year 2007.

GASB Statement No. 47, *Accounting for Termination Benefits* ("GASB 47"), establishes accounting standards for termination benefits (voluntary and involuntary). GASB 47 will be implemented by the Authority in fiscal year 2007.

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.

<u>Enterprise Fund</u> – 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, then 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.

Deposits and Investments – Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date of 90 days or less from date of purchase. 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.

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.

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 purchased surety policies to satisfy certain reserve fund requirements. During the fiscal year ended February 28, 2005, the Authority was in compliance with these covenants.

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.

Inventories – EZ tags are recorded as inventory based on the number of tags as of February 28, 2005 multiplied by the weighted average unit price per tag.

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 45 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.

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 $1,915,033 during fiscal year 2005.

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, 2005 was $850,000 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.

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. DEPOSITS AND INVESTMENTS

The carrying amount of the Authority's deposits was $13,728,940 as of February 28, 2005. The bank balances as of February 28, 2005 was $342,597 and 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 including cash equivalents were categorized by risk level for fiscal year ended February 28, 2005 as follows:

	1	2	3	Fair Value
U.S Government Securities	$ 438,064,835	$ -	$ -	$ 438,064,835
Commercial Paper	57,894,494	-	-	57,894,494
Municipals	62,109,748	-	-	62,109,748
Subtotal	$ 558,069,077	$ -	$ -	$ 558,069,077
Investments not subject to categorization:				
Money market mutual funds				5,124,786
Total				$ 563,193,863

3. OTHER RECEIVABLES

Other receivables as of February 28, 2005 are comprised of credit card receivables and toll violations for EZ tag collections. The other receivables amount of $7,314,941 is reported net of allowance for doubtful accounts of $11,099,245. As of August 2004, the Authority entered into an agreement with Linbarger, Goggan, Blair & Sampson, L.L.P. to provide collection services in the place of the county attorney. The fee per invoice is $50.00 and is included in the receivables balance.

4. PREPAIDS AND OTHER ASSETS

Other assets as of February 28, 2005 are comprised of the following:

Prepaid surety expense	$ 717,881
Advance funding for Westpark project	142,508
Advance funding for SH249 direct connector	105,408
Advance funding for Beltway 8 project	1,363,501
Total	$ 2,329,298

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

5. INTANGIBLE ASSET

On December 17, 2002, the Commissioners Court authorized a tri-party agreement among Harris County, TxDOT and Federal Highway Administration to participate in the reconstruction of IH10 Katy Freeway. Under this agreement, the Authority will provide funding in the amount of $237.5 million, net of $12.5 million credit for design, construction, operation and maintenance of a Toll Facility. The Authority's financial commitment will span nine payments over a five-year period. The first installment payment of $37.5 million was paid to TxDOT in May 2003. The payments pay for the license to the real property within the limits of and for the right to operate the Toll Facility. Toll Revenues from the operation of the Toll Facility will be collected by the Authority until the County is paid in full. The Toll Facility will revert to the State when the County has been fully paid the reimbursement from revenue or upon payment by the State to the County of an amount equal to the difference between the total amount of the reimbursement and the actual amount paid to the County as of the date of such reversion. The Toll Facility may revert to the State at any time after such full payment, subject to the State giving the County 90 days' prior written notice.

6. CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2005 was as follows:

	Balance March 1, 2004	Additions	Deletions	Transfers	Balance February 28, 2005
Land	$ 366,091	$ -	$ -	$ -	$ 366,091
Right of way	233,253,301	11,553,441	-	(3,784,683)	241,022,059
Construction in progress	336,589,620	184,432,358	-	(244,568,530)	276,453,448
System Integration in progress	8,569,814	3,778,971	-	-	12,348,785
Total capital assets not depreciated	578,778,826	195,985,799	-	(248,353,213)	530,190,383
Land improvements	694,561	-	-	-	694,561
Other tangible assets	514,250	-	-	-	514,250
Buildings	7,886,328	5,906,444	-	4,006,696	17,799,468
Infrastructure	1,227,607,879	-	-	244,140,529	1,471,748,408
Equipment	8,975,818	2,306,973	(148,965)	(50,660)	11,083,166
	1,245,678,836	8,213,417	(148,965)	248,096,565	1,501,839,853
Less accumulated depreciation for:					
Land improvements	(10,781)	(34,728)	-	-	(45,509)
Other tangible assets	(34,283)	(102,850)	-	-	(137,133)
Buildings	(1,352,114)	(305,141)	-	-	(1,657,255)
Infrastructure	(489,873,885)	(41,501,677)	-	-	(531,375,562)
Equipment	(5,039,800)	(969,054)	84,861	216,676	(5,707,317)
	(496,310,863)	(42,913,450)	84,861	216,676	(538,922,776)
Total capital assets being depreciated, net	749,367,973	(34,700,033)	(64,104)	248,313,241	962,917,077
Total capital assets, net	$ 1,328,146,799	$ 161,285,766	$ (64,104)	$ (39,972)	$ 1,493,107,460

The $39,972 balance in the transfers column, is due to assets that were transferred to Harris County funds.

7. 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:

	Principal*					
	Outstanding March 1, 2004	Issued/ Increased	Paid/ Decreased	Amortization/ Adjustment Net Premium Discount	Outstanding February 28, 2005	Due Within Year
Revenue Bonds	$ 981,224,095	$ 648,494,442	$ (511,750,568)	$ 50,870,065	$ 1,168,838,034	$ 23,468,443
Tax Bonds	881,989,225	21,252,680	(36,069,433)	(12,681,653)	854,490,819	33,282,061
Deferred Amount on Refunding	(131,278,637)	(94,459,148)	75,755,850	-	(149,981,935)	-
Accrued Interest Payable	4,841,376	92,056,456	(92,038,727)	-	4,859,105	4,859,105
Total Bonds Payable	1,736,776,059	667,344,430	(564,102,878)	38,188,412	1,878,206,023	61,609,609
Commercial Paper Payable	106,270,000	83,690,000	(150,000,000)	-	39,960,000	-
Judgments Payable	-	13,223,000	-	-	13,223,000	-
Compensatory Time Payable	518,643	490,627	(415,396)	-	593,874	475,099
Total-Toll Road Fund Debt	$ 1,843,564,702	$ 764,748,057	$ (714,518,274)	$ 38,188,412	$ 1,931,982,897	$ 62,084,708

B. Outstanding Bonded Debt – February 28, 2005 – Pertinent Information by Issue

Issue	Interest Rate Range (%)	Term Issue	Maturity	Special Conditions	Outstanding Balance, February 28, 2005
Senior Lien Revenue Bonds					
Series 1994A (portion refunded in 1997 and 2002)	5.60 - 5.70	1994	2005	Current Interest Bonds, Maturity 1994-2024	$ 1,800,000
Series 1997	4.50 - 5.13	1997	2024	Current Interest Bonds, Maturity 1997-2024	63,580,000
Series 2002	5.00 - 5.38	2002	2032	Current Interest Bonds, Maturity 2003-2032	394,465,000
Series 2004A	4.50 - 5.00	2004	2034	Current Interest Bonds, Maturity 2022-2034	168,715,000
Series 2004B	2.50 - 5.00	2004	2022	Current Interest Bonds, Maturity 2005-2022	478,270,000
Total Senior Lien Revenue Bonds					$ 1,106,830,000
Plus Unamortized Premium, Net					51,534,494
Net Senior Lien Revenue Bonds					$ 1,158,364,494

Issue	Interest Rate Range %	Term Issue	Maturity	Special Conditions	Outstanding Balance February 28, 2005
Unlimited Tax and Subordinate Lien Bonds (Tax Bonds)					
Refunding Bonds, Series 1991	18.89 - 25.23	1991	2008	Compound Interest Bonds, payable upon maturity 2001-2008	$ 2,955,000
Refunding Bonds, Series 1992A (portion refunded in 1997 and 2002)	11.81 - 14.04	1992	2008	Compound Interest Bonds, payable upon maturity 1997-2008	5,320,000
Refunding Bonds, Series 1992B (portion refunded in 1997 and 2002)	14.95 - 16.07	1992	2008	Compound Interest Bonds, payable upon maturity 1997-2008	887,488
Series 1994A (portion refunded in 1997)	6.00 - 6.30	1994	2007	Compound Interest Bonds, payable upon maturity 2001-2007	11,444,561
	6.50 - 8.00	1994	2024	Current Interest Rate Bonds - maturity 2008-2024	59,925,000
Series 1995A	27.59 - 38.11	1995	2012	Compound Interest Bonds, payable upon maturity 2002-2012	750,000
Refunding Bonds, Series 1997	17.58 - 33.92	1997	2013	Compound Interest Bonds, payable upon maturity 1998-2013	1,350,000
	5.00 - 5.13	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	4.00 - 5.25	2002	2015	Current Interest Bonds - maturity 2009-2014	42,260,000
Refunding Bonds, Series 2003	4.00 - 5.00	2003	2033	Current Interest Bonds - maturity 2009-2033	321,500,000
Total Tax Bonds					$ 717,527,049
Plus: Unamortized Premium					44,080,997
Net Tax Bonds					$ 761,608,046
Total - Toll Road Bonded Debt					$ 1,919,972,540

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 4.27 of February 28, 2005.

D. Debt Service Requirements

Total interest expense was $96,222,165 for the fiscal year. The following are the debt service requirements for bonds payable:

Fiscal Year		Principal Value At 2/28/2005		Amortiztion Prem./Discount Ref. Loss		Capital Appreciation Bonds		Principal Value At Maturity		Interest		Total
2006	$	39,121,422	$	(13,096,171)	$	30,725,263	$	56,750,514	$	94,090,208	$	150,840,722
2007		42,298,519		(14,485,613)		25,593,720		53,406,626		97,532,301		150,938,927
2008		42,254,884		(13,186,657)		21,808,505		50,876,732		100,526,284		151,403,016
2009		48,147,406		(11,891,741)		15,884,342		52,140,007		100,741,060		152,881,067
2010		79,215,368		(10,465,368)		2,845,369		71,595,369		93,710,293		165,305,662
2011-2015		480,149,723		(25,514,723)		6,499,114		461,134,114		390,575,109		851,709,223
2016-2020		442,780,507		(6,680,507)		-		436,100,000		241,014,512		677,114,512
2021-2025		320,591,671		(611,671)		-		319,980,000		140,387,466		460,367,466
2026-2030		218,907,530		392,470		-		219,300,000		79,772,950		299,072,950
2031-2034		206,505,510		(75,510)		-		206,430,000		21,250,475		227,680,475
Total	$	1,919,972,540	$	(95,615,491)	$	103,356,313	$	1,927,713,362	$	1,359,600,658	$	3,287,314,020

E. Unissued Authorized Bonds

In an election held on September 13, 1983, the voters of the County endorsed using toll roads to alleviate the County’s traffic problems by authorizing the County to issue up to $900,000,000 of bonds secured by a pledged of its unlimited ad valorem taxing power. As of February 28, 2005, the unissued authorized bonds for the toll road project are $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, 2005, the outstanding principal balance of these defeased bonds was $1,562,707,000.

G. Refunding

On March 11, 2004, the County issued $168,715,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2004 A to refund all the County’s outstanding Toll Road Senior Lien Revenue Commercial Paper Notes, Series E, to provide for the capitalize interest on the bonds, to satisfy the increase in Debt Service Reserve Fund requirement and to pay costs incurred in connection with the issuance of the bonds. The annual interest rates range from 4.5% to 5.0%. The issuance had a premium of $6,326,964. Interest accrues semiannually and the bonds mature in fiscal year 2034. There was no economic gain or loss due to the refunding of commercial paper.

On May 18, 2004, the County issued and settled $478,270,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2004 B-1, B-2 to refund and defease a portion of the County’s outstanding Toll Road Senior Lien Revenue Bonds, Series 1994, to purchase bond insurance policies for the Bonds and to pay cost of issuance and refunding. The annual interest rate ranges from 2.5% to 5%. The issuance had a premium of $41,821,375. Interest accrues semiannually and the bonds mature in fiscal year 2019 and 2022 for Series B-1 and Series B-2, respectively. The refunding resulted in a decrease of cash flow requirements of $60,043,890 and an economic gain of $46,813,010.

H. <u>Commercial Paper</u>

In addition to the outstanding long-term debt of the Toll Road Authority ("Toll Road"), the Commissioners Court has established a commercial paper program secured by and payable from Toll Road revenues. The commercial paper program consists of Harris County Toll Road Senior Lien Revenue Notes, Series E ("Notes") in an aggregate principal amount not to exceed $150 million outstanding at any one time. As of February 28, 2005, the Toll Road has $39,960,000 outstanding commercial paper.

The purpose of the Series E Notes is to provide funding for costs of acquiring, constructing, operating and maintaining, and improving Toll Road Project components, as well as to fund reserves, pay interest during construction, refinance, refund, and renew the notes themselves, and fund issuance costs.

The Notes program 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 or 366-day basis. The interest on the Notes may not exceed the lesser of 10% per annum or the maximum rate allowed by law, currently 15%. 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 issued 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 as of October 1, 2001 with Dexia Credit Local, whereby Dexia has agreed to advance up to $150 million to the Toll Road to pay the principal of any or all maturing Series E Notes as necessary for a period through October 27, 2007, which is the date of expiration. For this agreement, the County will be assessed a fee of .135% per annum on the aggregate amount of the commitment. The Lender agrees that it will on the first to occur of the Revolving Credit Maturity Date or the 181st day following the date on which any Revolving Credit Loan is made, on the terms and conditions set forth in the Agreement, make a term loan to the County in an amount equal to the outstanding unpaid principal balance of the Lender's Loan Note. The principal amount outstanding for Series E shall be paid in six equal semi-annual installments commencing on the date which is the first business day after the one hundred eightieth day following the day on which such term loan was made so that the term loan is repaid in full after 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, 2005:

Balance March 1, 2004	Issued	Retired/ Refunded	Balance February 28, 2005	Due Within One Year
$ 106,270,000	$ 83,690,000	$ (150,000,000)	$ 39,960,000	$ -

8. COMPENSATED ABSENCES PAYABLE

Changes in long-term compensated absences for the year ended February 28, 2005 were as follows:

Balance March 1, 2004	Earned	Taken/ Paid	Balance February 28, 2005	Due Within One Year
$ 518,643	$ 490,627	$ (415,396)	$ 593,874	$ 475,099

9. SHORT-TERM NOTE PAYABLE

Promissory Notes

The County authorized a promissory note for the purchase of property in connection with the Fort Bend Parkway Extension Phase II Project. The note is non-interest bearing and is due in full by August 31, 2005. The liability is recorded in the toll road fund as a short term note payable.

Activity for the year ended February 28, 2005, was as follows:

	Outstanding March 1, 2004	Issued	Redeemed	Outstanding February 28, 2005
Business-type Activities				
Promissory Notes	$ -	$ 3,860,000	$ -	$ 3,860,000

10. 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 553 non-traditional defined benefit pension plans. 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 2005 is 10.05%. The contribution rates for calendar years 2004 and 2003 were 10.53% and 10.31%, respectively.

The plan provisions are adopted by the Commissioners 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 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 determined contribution rate ("ADCR") 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 10.53% for the months of the accounting year in 2004, and 10.05% for the months of the accounting year in 2005.

The contribution rate payable by the employee members for 2005 and 2004 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, 2005, the annual pension cost for the TCDRS plan for its employees, including the Authority, was $60,824,272 and the actual contributions for the Authority were $1,979,177.

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, 2003 and December 31, 2004, the basis for determining the contribution rates for calendar years 2004 and 2005. The December 31, 2004 report is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/02	12/31/03	12/31/04
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	8.0% 5.5% 3.5% 0.0%	8.0% 5.5% 3.5% 0.0%	8.0% 5.5% 3.5% 0.0%

Harris County Trend Information			
Accounting Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2/28/2005	$60,824,272	100%	0
2/29/2004	$56,659,405	100%	0
2/28/2003	$56,254,388	100%	0

Schedule of Funding Progress			
Actuarial Valuation Date	12/31/02	12/31/03	12/31/04
Actuarial Value of Assets	$1,484,207,932	$1,640,964,686	$1,789,864,440
Actuarial Accrued Liability (AAL)	$1,711,255,341	$1,848,669,873	$2,005,039,645
Unfunded Actuarial Accrued Liability (UAAL)	$227,047,409	$207,705,187	$215,175,205
Funded Ratio	86.73%	88.76%	89.27%
Annual Covered Payroll (Actuarial)	$537,829,236	$570,304,250	$623,386,613
UAAL as Percentage of Covered Payroll	42.22%	36.42%	34.52%

11. 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 $137,324. Presently, 33 retirees qualify for retirement benefits.

12. COMMITMENTS AND CONTINGENCIES

Construction Commitments

The Authority is committed under various contracts in connection with the construction of Authority facilities, buildings, and roads of $149,900,326.

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. There are several civil cases that have resulted in settlements, consent decrees or are expected to have financial impact on the Authority in subsequent fiscal years. Total liabilities of $13,223,000 for Judgments Payable have been recorded in the basic financial statements as a restricted long term liability.

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.

13. 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.

14. SUBSEQUENT EVENTS

On April 12, 2005, the County authorized the Authority to issue Texas Toll Road Junior Lien Revenue Commercial Paper Notes, Series G for the primary purpose of certifying the availability of funds for contracts and other obligations of the Authority.

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